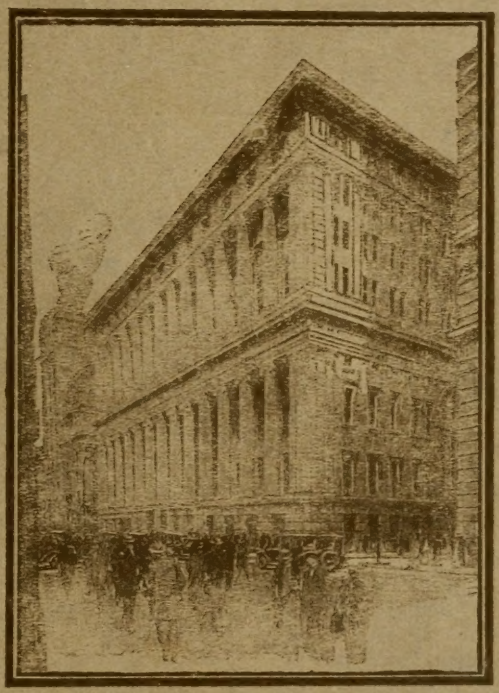
# NATIONAL BANKING
## UNDER THE
# FEDERAL RESERVE
# SYSTEM



THE NATIONAL CITY BANK
OF NEW YORK
1923 EDITION

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# NATIONAL BANKING
## UNDER THE FEDERAL RESERVE SYSTEM

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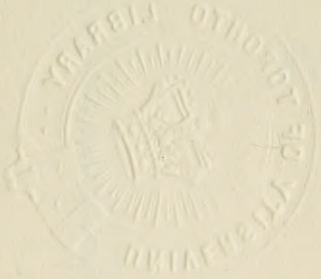
1923

THE NATIONAL CITY BANK
OF NEW YORK

*Head Office* 55 WALL STREET



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# CONTENTS


PAGE

FOREWORD . . . . . 1

NEW YORK CORRESPONDENT . . . . . 3

GROWTH OF THE NATIONAL BANKING SYSTEM—1863-1923 . . . . . 11

NATIONAL BANKING PRACTICE

- National bank organization . . . . . 23
- Succession of a state bank by a national bank . . . 37
- Circulation . . . . . 40
- Changes in capital . . . . . 44
- Liquidation . . . . . 49
- Consolidation . . . . . 51
- Corporate existence . . . . . 55
- Name and location . . . . . 57
- Shareholders . . . . . 58
- Dividends . . . . . 60
- Loans
  - A—Granted by a national bank . . . . . 61
  - B—Granted to a national bank . . . . . 64
- Interest . . . . . 66
- Paper eligible for rediscount and purchase by Federal Reserve Banks . . . . . 68
- Acceptance by member banks . . . . . 74
- Reserve requirements . . . . . 76
- Check clearing and collection . . . . . 78
- Interlocking directorates . . . . . 81
- Banks as insurance agents . . . . . 86
- Banks as agents and brokers for loans . . . . . 87
- Power to hold real property . . . . . 88
- Report of condition . . . . . 89
- Trust department . . . . . 90
- Branches . . . . . 91

THE FEDERAL RESERVE ACT . . . . . 93

INDEX . . . . . 141

# FOREWORD

This volume is an attempt to supply definite information concerning every routine or usual point likely to come up in the organization and administration of a national bank under the Federal reserve system. The National City Bank issued its first publication regarding banking nineteen years ago, and the repeated requests which have come from thousands of banks and individuals have made necessary repeated editions of the original work, which has been modified and brought up to date with each succeeding edition.

The edition which was issued in 1912 was called *National Banks of the United States.* In addition to the subject of bank organization, this edition contained an analysis of the national banking law, together with a supplement containing specimens of practically all the forms that national banks must use. This edition received a wide distribution not only among those who were interested in organizing new banks, but likewise among the executives of existing banks.

The enactment of the Federal Reserve Act rendered obsolete a great deal of the material in *National Banks of the United States.* The National City Bank hesitated about issuing a new edition of the book until the circumstances governing the operation of the Federal reserve system had become more or less stabilized. That time appeared to have been reached about three years ago, and the bank accordingly issued *National Banking Under the Federal Reserve System,* which met with a wide welcome from bankers all over the country, as well as from many students of banking in other parts of the world.

The present volume is to bring the publication just mentioned up to date. In the earlier pages of the book there has been included a brief history of national banking since the passage of the National Bank Act in 1863. The technical details of organizing a national bank are set forth; an analysis of both the Federal Reserve Act and the National Bank Act so far as they affect the management, supervision and general business practises of the national banks of the country is given. The Reserve Act itself is reprinted and carefully indexed so that it may be of convenient reference to all those who have occasion to refer to it.

This volume is, of course, in no sense a plea for national banks as differentiated from the other types of banking institutions which

make up the nation's banking system. But as the largest bank in the country, a member of the National Banking System for sixty years and of the Federal Reserve System since its inauguration, The National City Bank of New York accepts with pleasure the opportunity to give to other banks and to individuals specific, useful and reliable information regarding various phases of national banking, especially as they refer to the Federal Reserve Act.

# NEW YORK CORRESPONDENT

NEW YORK CITY, the money market of the country, is also the heart of the nation's business organization. It is well nigh impossible to conceive of a bank located anywhere in the United States which would not, on almost any business day of the year, be in contact in one way or another, with this great commercial nerve center. From the standpoint of the banks outside New York, therefore, it is essential that a connection with a New York bank be maintained, and to the formation of this connection should be given the greatest thought and care.

There are some elements of the relationship that will be preassumed as a matter of course; safety, credit accommodation under certain conditions, and the other usual banking functions. But within recent years there has grown up an idea of bank service which in proportion far transcends these fundamentals. Measured by this much broader idea, the term "National City Bank Service" has become a familiar and vitally significant phrase in the minds of those bankers who maintain a New York connection. "National City Bank Service" means not only the performance of those fundamentals of banking which are taken for granted by all those who deal with an eminently strong financial institution; it means also rendering in a wide variety of helpful ways the extraordinary and unusual services which only a very large organization has the machinery for providing.

## *Domestic Divisions*

For purposes of organization, the domestic work of The National City Bank, outside of New York City, is divided territorially into units composed of various states. Each general division is in charge of a vice-president of the Bank, assisted by several other officers.

This system enables the Bank to give the most minute care to the interests of its correspondents, since the various officers, by devoting especial attention to particular territories, are constantly familiar with all those financial, industrial, and commercial conditions which may have direct bearing upon a corre-

spondent bank's business. The district system of organization means that every correspondent bank has a group of officers at The National City Bank, definitely assigned to serve the correspondent's interests in every way possible.

## *Washington Bureau*

One of the most significant of the unusual services which The National City Bank of New York renders its banking clients is through the Bank's Washington Bureau, which is maintained for the purpose of giving personal representation before the Treasury Department and similar government divisions. The functions of this Bureau include:

1—Performing the duties of an agent in connection with counting and verifying worn and mutilated bank notes, witnessing their destruction, and examining at necessary intervals bonds on deposit with the Treasurer of the United States as security for circulation or public deposits.

2—Attending to the details in connection with deposits, withdrawals, substitutions, or transfer of bonds for postal savings or other accounts, and the collection of postal savings bonds.

3—Receiving interest and coupons on bonds held at the Treasury, and transmitting coupons or effecting collections as the owners desire.

4—Notifying banks by wire, if requested, when the Comptroller of the Currency calls for a statement of condition.

5—Answering inquiries from correspondents on matters of record in the various departments or governmental bureaus, which are available to the public.

6—Furnishing copies of bills and resolutions introduced before Congress.

7—Supplying copies of Supreme Court decisions or other public documents, as well as rules and regulations promulgated by the various executive departments, boards, and commissions, such as the Federal Reserve Board, etc.

8—Attending to matters relating to government contracts and filing bids with necessary deposit of funds to guarantee them.

9—Filing of applications for passports, and attending to matters relating to patents, copyrights, land titles, pensions, services, claims, etc.

Any of these matters will be cared for, without charge, for any of The National City Bank's correspondents. Every bank that is a member of the Federal Reserve System, or which contemplates at some future time entering the system, will find the aid given by such an organization as The National City Bank's Washington Bureau is frequently indispensable.

## *Interest on Balances—Collections*

To its correspondent banks The National City Bank of New York pays the rate of interest permissible under the rules of the New York Clearing House Association.

The Bank receives at par for their credit, its correspondents' items falling under the discretionary rules of the Clearing House. Those items upon which an exchange rate is obligatory under the Clearing House regulations are received by The National City Bank of New York for correspondent banks at the minimum permissible rate.

## *Trust Department*

The Bank, through its Trust Department, is authorized and prepared to act in any fiduciary capacity in which trust companies and state banks in New York State are permitted to act.

Among the principal functions which the Trust Department performs are the following:

### *For Individuals*

Executor and trustee under will;
Trustee under living trust, and insurance trust;
Administrator of an estate;
Guardian of the property of minors;
Committee of the property of incompetents;
Depositary of property placed in escrow.

### *For Corporations*

Trustee under mortgages or indentures securing issues of bonds or notes;
Fiscal agent for foreign governments and states;
Transfer agent;
Registrar of stocks or bonds;

Fiscal agent for the payment of dividends, coupons, and principal of bonds and notes;

Depositary, as follows: Under escrow agreements; under voting trusteeships; under reorganization or adjustment agreements; of subscriptions to stocks or bonds.

The Trust Department will be pleased, at all times, to assist the clients of the Bank in solving their fiduciary problems.

## *Custodian of Securities*

For many years, The National City Bank of New York has maintained a separate department, the sole purpose of which is to take care of securities. Apart from their physical safe-keeping, the department attends to collection of coupons and dividends as they fall due, and principal when it matures. It will make such disposition of principal and income as directed, and use its best endeavors to notify of subscription privileges, securities called for payment prior to maturity and requests for tenders of bonds and notes for sinking fund purposes.

Under special arrangements, this department keeps investment accounts, renders statements thereof periodically, and furnishes data for income tax returns.

This department gives expert attention to securities entrusted to its care and the charges made for this service are nominal.

When it is asked to obtain or dispose of securities for its correspondent banks, The National City Bank of New York is in an exceptionally fortunate position. The Bank's affiliate, The National City Company, is the most extensive dealer in securities in the United States, carrying on its list of daily offerings the choice investments which appear in the market. The Company at all times holds itself ready to be of service to the Bank's correspondents. National City Company offices are located in all of the important cities of the country, and where time is an essential element, in the purchase or sale of bonds, it is thus not always necessary to deal with the New York office.

## *Commercial Paper*

From the lists of commercial paper that are offered to The National City Bank daily, the Bank will be glad to purchase, for its corres-

pondents' account (without responsibility on the Bank's part but using the same care and discretion as in purchasing for its own account) any amount of such investments that may be desired.

Commercial paper thus acquired is bought on 10 days' option; pertinent information regarding the firm or individual responsible for the obligation may be obtained from this Bank's credit department.

## *Credit Files*

The credit files of The National City Bank of New York contain credit information on upwards of 375,000 names, domestic and foreign. Correspondents of The National City Bank of New York have access to this body of credit information; they are finding that every day, by drawing upon the information contained in these credit files, they are able to render most valuable service to their own clients.

## *Telegraphic Facilities*

The National City Bank has direct telegraphic wires connecting with the important business centers of the nation, and through this system of direct communication, the Bank is able to effect for its correspondents transfers of funds, etc., with a minimum loss of time.

## *Publications*

The Bank publishes a considerable volume of educational literature which is available to all of its correspondent banks. Chief among the Bank's regular publications is its Monthly Bulletin, which is a review and interpretation of current economic, financial and commercial conditions. A plan has been worked out whereby special editions of this publication are available for distribution by The National City Bank's correspondents. These special editions carry the correspondent bank's own advertisement, and are proving a very effective advertising and publicity medium to the correspondent banks that are at present using their own editions. A special folder explaining this service in detail, and giving an estimate of the small cost involved, will be furnished upon request.

The Publicity Department is called upon from time to time to advise with correspondent banks regarding their publicity and ad-

vertising campaigns; to place in New York publications advertisements for correspondents, (such as legal notices required by the National Bank Act) and to advise regarding sources of material for publicity purposes.

## *Library*

The Bank's financial library contains upwards of 100,000 volumes, periodicals, corporate reports, etc. It is a pleasure for the Bank's librarian to give suggestions to correspondent banks that wish to build up libraries of their own, to prepare bibliographies and lists of readings on financial topics when requested to do so, and, in a word, to make this large treasure-house of financial literature useful to the Bank's clients.

## *Statistical Information*

The Statistical Department of this Bank is often called upon to compile statistical reports for correspondent banks. Such requests are always gladly met and the information of course is furnished with this Bank's compliments.

## *Educational Facilities*

The Educational Department is frequently in a position to give counsel to correspondent banks that are interested in educational matters.

## *Foreign Divisions*

Since the establishing of The National City Bank of New York's Foreign Department back in 1897, the Bank has tirelessly striven to develop its facilities for foreign banking, to keep pace with the ever enlarging needs of American business men. With the passage of the Federal Reserve Act, which gave American banks the privilege of establishing branches abroad, The National City Bank at once began serving the interests of American trade by the opening of foreign offices. The Bank's own branches, and those of the International Banking Corporation, (owned by The National City Bank) are located in the principal cities of South America and the Caribbean

district, throughout the Far East, and at such important European commercial centers as London, Paris, Antwerp, Brussels, Lyons, Barcelona, Madrid and Genoa.

This world-wide network of branches, supplemented by correspondents in all cities where branches do not exist, places The National City Bank of New York in a unique position for being of assistance to business houses and banks throughout the world that are in any way in contact with the mighty current of foreign trade, and makes it possible for the Bank to handle all financial transactions arising from international commerce. Special facilities which the Bank's foreign organization enables it to offer include:

1—Collection of drafts anywhere in the world.

2—Negotiating or advancing against approved foreign bills, documentary or clean, drawn on any foreign point.

3—Caring for all phases of foreign exchange transactions, including the sale of foreign drafts, payable in any foreign country; transfer of funds by mail, telegraph or cable; and purchase and sale of foreign currency.

4—Making available the Bank's foreign draft service, under which correspondents draw their own drafts direct on foreign countries.

5—Acceptance of drafts covering commercial transactions, domestic and foreign, in accordance with the regulations prescribed by the Federal Reserve Board.

6—Issuance or advice of import or export commercial letters of credit, and of travelers' letters of credit, and travelers' checks.

7—Gathering and supplying to the Bank's clients reliable credit information on foreign firms, and forwarding to the Bank's foreign branches correct credit information on American firms.

8—Aiding in securing legal services in foreign countries.

9—Study of, and reporting upon, foreign market conditions and possibilities for the sale of American goods abroad.

10—Through the Bank's Foreign Trade facilities or connections, bringing together the foreign buyer and the American merchandiser, and vice versa.

11—Assisting customers in disposing of rejected merchandise in connection with dishonored foreign bills.

12—Supplying letters of introduction to the Bank's foreign branches and foreign correspondents.

13—Execution of orders in this and foreign countries for the sale or purchase of securities.

The advice and counsel of the officers of The National City Bank of New York—those concerned with foreign, as well as those concerned with domestic affairs—is always at the disposal of every one of the Bank's correspondents. These gentlemen consider it a privilege to give their attention and best efforts to the special problems which are every day laid before them by the Bank's correspondents.

Our correspondent bankers visiting New York will find the Forty-second Street branch of particular convenience because of its accessibility to the hotel, shopping and theatre district. The Bank also has a branch at Fifth Avenue at 28th Street, which serves the important business district in that section, while the Bowery branch, located at Bond Street is in the heart of the East Side district.

## *Compound Interest Department*

This is a department where deposits as low as $1 are accepted, and interest compounded monthly at the rate of 3 per cent. per annum is paid on all balances of $5 and upward. It is maintained only at the Forty-second Street branch, and although it was only started at the beginning of 1922, it is already being used as a depository by many thousands who wish to build up bank balances.

## *Safe Deposit Facilities*

Complete and up-to-date safe deposit vaults are maintained at the Forty-second Street and the Fifth Avenue branches. These vaults afford the last word in protection to valuables of every kind and are operated as an added facility of National City service.

# GROWTH OF THE NATIONAL BANKING SYSTEM

IN this chapter it is impossible to attempt anything approaching a comprehensive history of national banking in the United States. The subject itself is so broad and so involved with other subjects in the fields of finance closely akin to it, that it can be treated here only in general outline. The sketch following is presented with the idea that it may serve as the background that is essential to a thorough understanding of the national banking system as it operates today.

For convenience, and for purposes of comparison, the history of national banking may be divided into four main periods:

I—1863-1882 *Formative Period.*
II—1883-1899 *Natural Development.*
III—1900-1913 *Development of Smaller Banks.*
IV—1914 to present date *Under Federal Reserve System.*

## I

## FORMATIVE PERIOD

THE fundamental difference between the general course followed by American banking before and since the establishment of the national banking system is this:

> In the earlier period the tendency of banking was toward the extensive use of bank credit in the form of note issue; this form of credit completely lacked stability and constant value, since it was subjected to no central supervision.
>
> During the national banking period, the tendency was toward more extensive use of bank credit in the form of deposits, and relatively less in the form of note issue. Note issue was a privilege conferred only upon those banks under Federal supervision, and was hence subjected to central control, with resultant stability of value.

A very simple set of figures illustrates this differentiation quite clearly. We may assume that the national banking system had become thoroughly established by 1870, at the close of which year there were 1648 national banks in the United States. In that year, national bank notes comprised 40.3% of the money in circulation in the country; in 1920, national bank notes aggregated less than 9% of the stock of money in the United States, despite the fact that the total volume of these notes was more than double what it had been in 1870. Measured by the country's total volume of money, therefore, these figures indicate that national bank note circulation was nearly fivefold as important in 1870 as it is today.

In the year that the National Bank Act was passed, there were in the United States 1466 state banks, capitalized at $405,000,000. Bank circulation the same year was $239,000,000, or 59 cents bank circulation for every $1 of bank capitalization, which was the highest point state bank circulation ever reached.

From the earliest years of the country's history, the banks had assumed the right of note issue, and this right was supported, but in only a few cases adequately regulated, by the various states. There was no Federal legislation governing banking practices or bank note issue. Because state supervision was generally lax, and reserves against bank notes were not infrequently wholly insufficient, notes of numerous banks were at varying degrees of discount throughout the country. Some of them were entirely worthless. Counterfeiting was extensive. Thus, with the banks' cash capital and deposits small, with checks and drafts in quite uncommon use, with note issue the chief function of the banks, and with this function in more or less disrepute because of the discount at which many bank notes passed, it is not surprising that the country was ready for a new banking system at the time the National Bank Act went into effect.

Salmon P. Chase, Secretary of the Treasury, aggressively advocated the establishment of the national banking system because he believed that, as it had been planned, it would accomplish two outstanding results: (1) Provide a market for government bonds; (2) Give the country a unified currency system. Therefore, one of the fundamental requirements of national banks was that they should deposit with the Treasury Department a certain quantity of

government bonds which they should be required to own. As something in the nature of an exchange for this requirement, the national banks were given the privilege of note issue based upon Government bonds. By 1866, this right had been made exclusive by a 10% tax on state bank note circulation.

The measure providing for the system was introduced in Congress in the winter 1861-1862 but was not acted upon until the following session, in 1863. By the close of 1865—the year marking the end of the Civil War—there were 1582 national banks with total capital of $403,300,000, owning government bonds in excess of that sum. while their circulation was equal to approximately one-half of their total capitalization.

Circulation had been rigidly limited by Congress—first to $300,000,000 then to $354,000,000, and as a result, something of a finarcial injustice had been imposed upon the newer sections of the country. National banks in the East and North, which were either organized or converted soon after the National Bank Act went into effect, had naturally obtained the bulk of the circulation that was available. This left the banks which were organizing in the newer sections of the country—where both capital and currency were urgently needed—at a decided disadvantage. For example, the banks of the Eastern and Middle States, in 1870, had some 80 million dollars' worth of currency in excess of their share on a basis of population and wealth. The banks of the Southern States, on the other hand, were entitled to some 57 million dollars in currency more than they could obtain.

In 1875, Congress coupled with the passage of the Specie Resumption Act, a measure providing for "free banking"—*i.e.*, the removal of all limitations upon the volume of bank currency. Some (although no great), impetus to the organization of new banks was given by this measure. The year 1875 saw the organization of 107 new national banks, capitalized at some 12 million dollars, against 71 with capitalization of 6.7 million dollars for the previous year, 1874. In each of the four years following 1875, however, the total number of national banks in the country decreased by a slight margin.

As originally enacted, the National Bank Act provided for charters extending over a period not exceeding 20 years, so in 1883-84 the

charters granted the first national banks (and extending 20 years) would have automatically expired. As a matter of fact, the charters of 29 banks organized for periods of less than 20 years, expired prior to July 12, 1882. Congress in 1882, in the face of bitter opposition, passed a bill permitting the extension of charters of existing national banks for 20 more years.

Thus closed what may be described as the formative period of the National Banking System. During the first 20 years of its existence, the system had been subject to attacks first from one side, then from another; one Secretary of the Treasury would be its warm defender; another would view it with apathy. Not infrequently, the issues which brought various phases of the National Banking System up for Congressional action, were not issues of a fundamental banking nature, but were of a strictly political character, and were dealt with accordingly.

But, in the period covered by the first charters of the earliest national banks, the system established itself on a thoroughly firm basis. It proved its great usefulness to the financial organization of the country, and laid a firm foundation for the growth and strength which came to the national banks with each succeeding year. Since the passage of the recharter act in 1882, no effort has been made from any responsible source either to legislate the national banks out of existence, or to restrict the scope of their banking practices. In fact, the more recent tendency of Federal legislation has been to further broaden the national banks' field of operation.

## II

## NATURAL DEVELOPMENT

The period 1883-1899 was one of natural development in the history of the National Banking System in that those national banks already in existence were developing normally along the lines of scientific and modern banking principles, and that the new sections of the country were from year to year getting much needed banking facilities through the organization of additional national banks.

National banks during the period were neither disturbed nor

aided to any considerable extent by Federal legislation. The currency phase of the nation's financial problem occupied the major share of attention. Those who wished the country to go on a silver basis were pressing their case with unremitting vigor, and were winning some concessions. The old spectre of the greenbacks was still sharing in the government's consideration of currency matters.

Bank circulation was measurably reduced during the period, both in total volume and per dollar of national banking capital. Whereas in 1882 there was $.65 bank circulation for every $1.00 of national bank capital, in 1899 there was $.34 bank circulation for every $1.00 national bank capitalization. The chief causes for this reduction were:

1—Three per cent. bonds constituted a large portion of the nation's debt and were redeemable at the pleasure of the government; they were being rapidly retired and were hence undesirable as a basis for note issue.

2—All other issues of government bonds were selling at high premiums. Four per cents reached 130+. Circulation predicated on bonds at this market value was, of course, altogether unprofitable.

3—The Government was purchasing silver, coining dollars and issuing silver certificates at a rate never lower than 2,000,000 per month and was using every means at its command to force these silver certificates into circulation, in direct competition with bank notes.

But while circulation was declining, relatively, the practice of the bank extending its credit through deposits was rapidly gaining headway. The following brief tabulation shows at a glance the relation of deposits and loans to national bank capital at the beginning and the close of the period. The figures are compiled from the Comptroller's Statements taken as near as possible to the ends of the fiscal years 1882 and 1899.

| YEAR | DEPOSITS PER $1 OF CAPITAL | LOANS PER $1 OF CAPITAL |
|---|---|---|
| 1882 | $2.24 | $2.53 |
| 1899 | 4.17 | 4.12 |

This was a very remarkable stride toward banking principles as we see them in operation today. At the close of 1899 there were in

active operation 3602 national banks in the United States as compared with 2308 at the end of 1882. The average yearly increase for the period was 76.

## III

## DEVELOPMENT OF SMALLER BANKS

Prior to 1900, the minimum national bank capitalization permissible under the law was $50,000. This meant that in many of the less populous and less wealthy communities, where capital normally was badly needed for development of natural resources of the country, establishment of a national bank was often extremely difficult. Congress in March, 1900, amended the National Bank Act to provide for the organization of banks with a minimum of $25,000 capital. The same act also provided for the refunding of the national debt, and for issuing 2 per cent. consols, eligible as a basis of national bank circulation.

The effect of this new legislation on the organization of national banks was almost instantaneous. During the five years preceding 1900, the average net yearly *decrease* in the total number of national banks in active operation had been 28. For the five years 1900-1904 inclusive, the average net yearly *increase* in the number of national banks of the country was 390. The few years immediately succeeding the passage of the Act of 1900 may be described as the "Golden Age" of national bank organization. No other period in the history of national banking approaches it for the prolific organization of national banking institutions. The net average yearly increase for the period 1900-1913 was 294.

The following tabulation, made on the same basis as that indicated in the preceding section, shows how, during this period, national banks increased still further their ability to extend their credit.

| YEAR | DEPOSITS PER $1 OF CAPITAL | LOANS PER $1 OF CAPITAL |
|---|---|---|
| 1899 | $4.17 | $4.12 |
| 1913 | 5.63 | 5.81 |

Due to the new provisions that had been made for national bank currency by the Act of 1900, the volume of bank notes increased

materially during the period 1900-1913. In June of the former year, bank note circulation was $265,000,000, or 11.3% of the total money in the United States, whereas in the same month of the final year of the period, bank note circulation was $722,000,000, or 19.4% of the total money in the United States.

The year 1913 is taken as the termination of this period in the national bank system's history, because that year marked the passage of the Federal Reserve Act which had such a far-reaching influence on the entire system and which altered it in so many essential features. For many years it had been obvious to close students of finance that the nation's banking system, splendid as it was in many respects, contained many defects, and that the whole might be so altered that the individual banks could be of even greater service to their particular communities and to the country at large.

During the few years just preceding the passage of the Federal Reserve Act, careful and comprehensive studies of banking in the United States were made by various competent agencies. Probably the most exhaustive of these inquiries was that followed by the National Monetary Commission, which, after the most diligent labor, presented a plan for the entire reorganization of our banking system. This plan, generally known as the Aldrich scheme, was not adopted by Congress, but the Congress which came in after the election of 1912, turned its attention forthwith to that banking plan which was ultimately embodied in the Federal Reserve Act.

The National Monetary Commission, in its report, had detailed seventeen criticisms of American banking. This body of criticism provides a splendid commentary on our whole banking structure—national, state and private—before the passage of the Federal Reserve Act; it gives, moreover, a vivid picture of the causes from which the Reserve Act arose. A summarization of the list of the Monetary Commission's criticisms follows, and is included here because it gives, in the briefest way possible, matter that is essential to the understanding of national banking.

*Reserves*

1—There was no provision for concentrating the cash reserves of the banks and for their mobilization and use in times of need;

2—Inadequate federal and state laws restricted the use of bank reserves, thus decreasing lending power;

3—The banks lacked adequate means for replenishing their reserves or increasing their loaning power under unusual demands.

### *Currency*

Bank note currency—the only form of currency which might be expected to respond by expansion and contraction to unusual needs—was deprived of elasticity because its volume largely depended upon the amount and price of United States bonds.

### *Coöperation*

1—Banks lacked the means to insure such effective coöperation as was necessary to protect their own and the public's interests in times of stress. There was no coöperation of any kind among banks outside of clearing house cities;

2—The banks had no effective agency covering the entire country affording necessary facilities for making domestic exchanges.

### *Commercial paper*

1—Lack of commercial paper of an established standard issued for agricultural, industrial and commercial purposes, and available for investment by banks, had led to an unhealthy congestion of loanable funds in great centers, thus hindering production throughout the country on the whole;

2—There was no open market for the discount of such paper;

3—There was a disparity in discount rates throughout the country generally, and there was in existence no agency, the influence of which could secure uniformity, steadiness and reasonableness in rates of discount.

### *No banking facilities for emergency cases*

We had no effective agency that could surely provide adequate banking facilities for different regions, promptly and on reasonable terms, to meet the ordinary or unusual demands for credit or currency necessary for moving crops or for other legitimate purposes.

*Lack of uniformity*

There was no power to enforce uniform standards throughout the country with regard to capital, reserves, examinations and the character and publicity of reports of all banks in the different sections of the country.

*Foreign banking*

There were no American banking institutions maintaining branches in foreign countries, and the organization of such foreign branches was necessary for the proper development of our foreign trade.

*Loans on real estate*

The inability of national banks to legally make loans upon real estate restricted their power to serve farmers and other borrowers in rural communities.

## IV

## UNDER FEDERAL RESERVE SYSTEM

It is often said, and generally conceded, that the Federal Reserve System saved the United States from financial chaos during the European War. With equal emphasis it may be said that the national banking system made the Federal Reserve System possible. The national banks (particularly in the early days of the Federal Reserve System's existence) supplied not only the skeleton for the Reserve plan, but they supplied likewise its sinews—its very life-blood.

Two elements, in analysis, were necessary to make the Federal Reserve System a success: first, capital for the twelve Federal Reserve Banks; second, support and use of the facilities offered by those banks. Both of these elements the national banks supplied. The Federal Reserve Act itself provided that each national bank should be a member of the Federal Reserve System and should subscribe to the capital stock of one of the twelve Federal Reserve Banks. The alternative, in effect, was surrender of the charters of those national banks which did not see their way clear to join the

System. In other words, when the government was ready to put the Federal Reserve System into effect, it found already in existence an eminently strong banking system, reaching to every point of the national compass, able to subscribe the necessary capital, lend the necessary support and coöperation, and "make the system march."

The non-national banks, likewise, rendered invaluable coöperation in the launching and operation of the Federal Reserve System. Up to December, 1922, 1654 banks other than national had joined the System, indicating a ratio of approximately 1 non-national member bank to every 5 national members.

In referring to the national banks as making possible the Federal Reserve System it is essential not to lose sight of the fact that, despite the splendid case the System has proved for itself by its own successful achievements, it was, nine years ago, untried, and looked upon questioningly by many substantial bankers and business men of the country. Had there been in existence no great body of banks, subjected to Federal legislation, it may well be doubted whether the Federal Reserve System would have had such an early and free-handed opportunity to demonstrate its merits.

With the inauguration of the Federal Reserve System, national banking in America entered upon a period influenced by elements of more radical departure from established principles of finance than those of any previous epoch. New regulations have become operative; new forces in the general scheme of banking have been introduced; a closer kinship between the national and non-national banks that are members of the System has arisen. And above all, the fact that in the neighborhood of ten thousand banks are encompassed in one central banking system, working together for one purpose, has in itself had as tremendous a moral effect upon the member banks themselves as upon the country at large.

During the period 1914-1922, the average yearly increase in the number of national banks organized was 201, but total assets of all national banks increased from 11.5 billion dollars to 20.9 billion (September 15, 1922), or nearly 100 per cent. In other words, the increase in total resources shown during the period mentioned practically equaled the growth of assets during the entire 51 years that the national banking system had been in existence up to 1914. Individual deposits in national banks more than doubled during the

period, and loans increased over 90 per cent. These two items per $1 of capital, at the beginning and close of the period were:

| YEAR | DEPOSITS PER $1 OF CAPITAL | LOANS PER $1 OF CAPITAL |
|---|---|---|
| 1913 | $5.63 | $5.81 |
| 1922 | 10.28 | 8.60 |

It must, of course, be borne in mind that these unprecedented advances have been by no means due solely to the fact that the Federal Reserve System was in operation, but have been due likwise to other important financial and economic forces—chiefly stimulated by the war—which were concurrent with the development of the Federal Reserve System.

In September, 1922, there were 8240 national banks in operation, out of a total of some 31,000 banks in the entire country. The capitalization of the national banks was 1307 millions, as compared with 1636 millions for all other banks (June 30, 1922); their total deposits 16,598 millions, as compared with 23,929 millions for other institutions.

The table on page 22 will show at a glance the development by periods, of certain important features of the national banking system since its inauguration 60 years ago. In reading these figures, as well as those set forth on the preceding pages, it is well to remember that reliable statistics for all the national banks in the country are obtainable only through reports compiled at the calls of the Comptroller of the Currency, and that these calls vary in number and dates from year to year. For the compilations set forth here, figures have been drawn from returns to calls falling the nearest to December 31 of the last year of the period concerned, except in reference to the stock of money in the United States, and national bank circulation, where June figures are used.

# DEVELOPMENT OF NATIONAL BANKING SYSTEM SHOWN BY PERIODS

| Period | Total Number Reporting National Banks Close of Period | Average Net Yearly Increase | Total Capital Close of Period (millions) | Average Yearly Increase (millions) | Banking Power of National Banks at Close of Period (millions) | Average Yearly Increase (millions) | Total Money in United States at Close of Period (millions) | Per cent. of Total Money Represented by National Bank Circulation |
|---|---|---|---|---|---|---|---|---|
| 1863-1882 (inclusive) *20 years* | 2,308 | 115 | 485 | 24 | 2,350 | 117 | 1,409 | 21.3 |
| 1883-1899 (inclusive) *17 years* | 3,602 | 76 | 607 | 7 | 4,433 | 122 | 2,190 | 9.1 |
| 1900-1913 (inclusive) *14 years* | 7,509 | 279 | 1,059 | 32 | 11,148 | 479 | 3,720 | 19.4 |
| 1914-1922 (inclusive) *9 years* | *8,240 | 81 | *1,307 | 27 | 17,600 | 1,306 | 8,177 | 9.2 |

*Sept. 15, 1922.

# NATIONAL BANK ORGANIZATION

THE detailed steps in the organization of a national bank are as follows:

1—Determination of amount of bank's capital.
2—Organization application.
3—Disposal of capital stock.
4—Execution of Articles of Association.
5—Execution of Organization Certificate.
6—Election of directors.
7—Appointment of officers.
8—Initial payment of capital.
9—Beginning business.
10—Subscription to stock in Federal Reserve Bank.
11—Payment of balance of capital.

1. *Amount of capital*—Since it is necessary to state the amount of any proposed national bank's capital in the first formal communication to the Comptroller of the Currency, the determination of the amount of this capital may properly be said to be the first preliminary step in national bank organization.

The capital necessary for the organization of a national bank is:

| IN CITIES WITH POPULATION OF | MINIMUM CAPITAL |
|---|---|
| Not more than 3,000 | $25,000 |
| " " " 6,000 | 50,000 |
| " " " 50,000 | 100,000 |
| Over 50,000 | 200,000 |

Where a national bank is organized in a suburban district included within the political boundaries of a city, the bank must have a capitalization equivalent to the amount of capital required of a bank located in the city in question.

2. *Organization Application*—Preliminary to the formal application to organize a national bank it is customary for those interested in the prospective financial institution to write the Comptroller of the Currency at Washington, requesting reservation of the title under

which the bank is to be known, and stating the location and proposed capital. The title asked for will be reserved for fifteen days, before the expiration of which time it is expected that formal application to organize will be filed with the Comptroller.

Forms for the application to organize a national bank are furnished by the Comptroller of the Currency—and minute care should be exercised in filling out these papers. All of the information requested should be given, the instructions contained in the forms should be carefully followed and the application signed by at least five prospective shareholders of the association.

Exclusion of any professional promoters from the organization will be required. No commissions paid for the sale of stock or promotion fees should be included in the bank's organization expenses, but only such legitimate other expenses as are incident to the actual organization of the bank. If any agreement exists to use subsequently any part of the capital stock, surplus or undivided profits, to pay promoters' expenses, favorable consideration will not be given to the application.

Letterheads bearing the bank's name which are in use before the bank is given permission to begin business should indicate that the bank is organizing, or bear the heading "Organization Committee."

Accompanying the application to organize a national bank should be a draft for $100 payable to the order of the Comptroller. This sum is to cover expenses incurred in investigating the proposed bank. A bank examiner will be sent to the town in which the bank is to be located, and he will give consideration to the general character and experience of those who are to conduct the bank's affairs; to the question of whether there is need for additional banking facilities in the community; to the community's prospect for future development; to the methods and banking practices of existing banks; to prospects of success for the proposed banks under efficient management. The Comptroller also obtains reports on the situation from the Federal Reserve Bank of the district, from the State Banking Department, and from other sources.

Upon the approval by the Comptroller of the organization of the proposed bank, all the necessary blanks for use in connection with the organization will be furnished, with instructions for their proper execution. The title applied for will be reserved for sixty days

more, during which period it is expected the organization of the bank will be completed.

3. *Disposition of capital stock*—After the bank has received permission to organize, subscription contracts, to be signed by the prospective shareholders, are usually drawn up. Forms for such contracts are NOT furnished by the Comptroller, but it will be found serviceable if each subscriber is required to give not only his signature, but his address, occupation, statement of his net financial worth, and the number of shares to which he subscribes.

The stock of a national bank must be divided into shares of $100 each, and the Comptroller recommends that all organizing national banks sell their stock at a premium, thereby creating a surplus from which to pay organization expenses, which, with salaries, frequently prove a drain upon capital during the early months of the bank's existence. Where no surplus is created through premium, the Comptroller recommends that no dividend be paid until a substantial surplus has been created by earnings.

Payment of the capital stock is treated in Paragraphs 8 and 10 of this chapter.

4. *Articles of Association*—At least five persons, the majority of whom are subscribers to stock of the proposed bank, must sign the institution's Articles of Association, which are drawn up and executed in duplicate. One copy is retained by the bank, and another is filed in the Comptroller's office. The persons uniting to organize a national bank must be individuals who can hold and control property in their individual right—not corporations, firms, or associations of any character.

A form for typical Articles of Association is given at the end of this chapter. (Page 30.)

5. *Organization Certificate*—At the same time that the Articles of Association are executed, or AFTER that date, the bank's Organization Certificate (form furnished by the Comptroller) must be executed. One copy of the Organization Certificate is filed with the Comptroller; one copy is retained by the bank. (See page 29.)

The bank will have succession for ninety-nine years from the

date upon which the Organization Certificate is executed, and NOT from the date of the certificate from the Comptroller authorizing the bank to begin business. (See "Corporate Existence," page 55.)

## CORPORATE POWERS

UPON the date of the filing of its organization certificate, a national bank becomes a body corporate, and has the following powers:

(a) To adopt and use a corporate seal.

(b) To have succession for a period of ninety-nine years from its organization, unless it is sooner dissolved according to the provisions of its Articles of Association, or by the act of its shareholders owning two-thirds of its stock, or unless its franchise becomes forfeited by some violation of law.

(c) To make contracts.

(d) To sue and be sued, complain and defend, in any court of law and equity, as fully as natural persons.

(e) To elect or appoint directors, and by its board of directors to appoint a president, vice-president, cashier, and other officers, define their duties, require bonds of them and fix the penalty thereof, dismiss such officers or any of them at pleasure, and appoint others to fill their places.

(f) To prescribe, by its board of directors, by-laws not inconsistent with law, regulating the manner in which its stock shall be transferred, its directors elected or appointed, its officers appointed, its property transferred, its general business conducted, and the privileges granted to it by law exercised and enjoyed.

(g) To exercise by its board of directors, or duly authorized officers or agents, subject to law, all such incidental powers as shall be necessary to carry on the business of banking; by discounting and negotiating promissory notes, drafts, bills of exchange, and other evidences of debt; by receiving deposits; by buying and selling exchange, coin, and bullion; by loaning money; and by obtaining, issuing, and circulating notes according to the provisions of this Title.

But no association shall transact any business except such as is incidental and necessarily preliminary to its organization, until it

has been authorized by the Comptroller of the Currency to commence the business of banking.

6. *Directors*—The number of directors is provided for in the Articles of Association, and cannot be less than five. The number may be rigidly fixed, or, on the other hand, a sliding scale may be adopted, in which case the provision applying to directors will read: "The board of directors shall consist of not fewer than—nor more than—shareholders," etc.

If the directors are not designated in the Articles of Association, the shareholders should proceed to their election after the execution of the Organization Certificate. The qualifications for directors are:

(a) Directors of a bank capitalized at $25,000 must own at least five shares of capital stock in their own rights; directors of a bank capitalized at more than $25,000 must own at least ten shares of capital stock in their own rights. Any director who ceases to own the required number of shares becomes disqualified, and the remaining directors elect his successor.

(b) Every director must, during his term of office, be a citizen of the United States.

(c) Not less than three-fourths of the directors must have resided in the state in which the bank is located or within fifty miles of the location of the office of the association for at least a year prior to their elections, and must be residents therein so long as they continue in office.

Each director is required to take an oath of office after his election, but cannot take such oath before the execution of the bank's Organization Certificate. The oath must be sent to the Comptroller's office, where it is filed.

7. *Officers*—The directors elect the bank's president, vice-presidents, cashier, and such other officers as may be desired. The Comptroller must be furnished with the original signature of these officers, as well as notified of the date upon which they were elected.

8. *Initial payment of capital*—The law provides that 50% of the capital stock of a national bank must be paid in cash (not in assets

of another corporation, notes, or other like evidence of debt), and *permits* payment of the remaining 50% in five equal monthly cash installments. When at least 50% of the stock has been paid, each shareholder having paid not less than one-half on each share subscribed, and when all other legal requirements have been complied with, the president, or cashier, and a majority of the directors, certify these facts under oath to the Comptroller.

The Comptroller's office further requires a statement showing the total amount collected on stock subscriptions. The difference between this amount and organization expenditures should be deposited in a disinterested bank, the president or cashier of which is to certify to the Comptroller's office the amount on deposit to the credit of the organizing bank.

9. *Beginning business*—When the Comptroller is convinced that all preliminary conditions regarding the organization of the proposed bank have been satisfactorily complied with, he will issue a certificate of authority to commence business (generally known as the bank's charter). This certificate, upon its receipt, must be published in a local or county newspaper for a period of 60 days. The bank may begin its operations immediately after it has been officially notified that its certificate has been issued, and the Comptroller should be notified of the date upon which business is actually begun.

10. *Federal Reserve System*—Every national bank automatically becomes a member of the Federal Reserve System, and is required to subscribe to stock in the Federal Reserve Bank of its district to an amount equal to 6% of the paid-up capital stock and surplus of the national bank in question. Where a bank is just organized, and where its capital is not all paid in, or its surplus is being added to, further payments of subscription to Federal Reserve Bank stock are called for quarterly—April 1, July 1, October 1, and January 1.

Thus far the Federal Reserve Banks have called in subscription payments amounting to only 3% of the capital and surplus of member banks; the remaining 3% remains subject to future call.

When a national bank is organized, it should at once apply for stock in the Federal Reserve Bank of its district, but payment on account of the subscription may be deferred until receipt of advice

of approval of the application by the Federal Reserve Agent and Federal Reserve Board. HOWEVER, Subscriptions to, and payment for, Federal Reserve Bank stock are now conditions precedent to the issuance of charter to a national banking association. The Comptroller notifies both the organizing bank and the Federal Reserve Board when the association has complied with preliminary legal requirements.

(See also "Reserve Requirements," page 76.)

11. *Payment of balance of capital*—Although the law makes it permissible for 50% of a national bank's capital stock to be paid in five monthly payments, it is by no means obligatory that payment shall be so long deferred. All of the capital stock, or a portion of it exceeding the first installment of 50% may be paid in advance.

Where the shareholders are granted the additional five months in which to complete payment, installments are due monthly from the date of the issuance of the bank's certificate to begin business. These deferred payments must be paid in money, as was the case with the first 50%, and each payment must be certified to the Comptroller by the president or cashier, under seal of the bank.

The law makes special provision for proceedings where a shareholder defaults in his payments.

## TYPICAL ORGANIZATION CERTIFICATE

[Executed in duplicate.]

We, the undersigned, whose names are specified in article fourth of this certificate, having associated ourselves for the purpose of organizing an association for carrying on the business of banking, under the laws of the United States, do make and execute the following organization certificate:

First. The title of the association shall be "The....."

Second. The said association shall be located in the..... of ....., county of ....., and State of ....., where its operations of discount and deposit are to be carried on.

Third. The capital stock of this association shall be ..... dollars ($.....), and shall be divided into ..... shares of one hundred dollars each.

Fourth. The name, financial worth—net, and the residence of each shareholder of this association, with the number of shares held, are as follows:

| NAME | FINANCIAL WORTH —NET | RESIDENCE | NO. OF SHARES |
|---|---|---|---|
| | | | |

Note.—The names, etc., of all the shareholders must be given.

Fifth. This certificate is made in order that we may avail ourselves of the advantages of the aforesaid laws of the United States.

In witness whereof we have hereunto set our hands this ..... day of .....

(To be signed and acknowledged by those who have signed the articles of association.)

..... ..... ..... .....

..... ..... ..... .....

..... ..... ..... .....

..... ..... ..... .....

(Acknowledgment must be made before judge of court or notary public and authenticated by the seal of such court or notary.)

State of..... } ss.:
County of..... }

Before the undersigned, a .....of ....., personally appeared ....., to me well known, who severally acknowledged that they executed the foregoing certificate for the purposes therein mentioned.

Witness my hand and seal of office this ..... day of .....

..... .....

[official seal of officer]

## TYPICAL ARTICLES OF ASSOCIATION

For the purpose of organizing an association to carry on the business of banking under the laws of the United States, the undersigned subscribers for the stock of the association hereinafter named do enter into the following articles of association:

1—The title of this association shall be "The....."

2—The place where its banking house or office shall be located, and its operations of discount and deposit carried on, and its general business conducted, shall be .....

3—The board of directors shall consist of.....shareholders. The first meeting of the shareholders for the election of directors shall be held at.....on the....., or at such other place and time as a majority of the undersigned shareholders may direct.

4—The regular annual meetings of the shareholders for the election of directors shall be held at the banking house of this association on the second Tuesday of January of each year; but if no election shall be held on that day it may be held on any other day, according to the provisions of section 5149 of the Revised Statutes of the United States, and all elections shall be held according to such regulations as may be prescribed by the board of directors not inconsistent with the provisions of the national banking law and of these articles.

5—The capital stock of this association shall be.....dollars, divided into shares of one hundred dollars each; but the capital may, with the approval of the Comptroller of the Currency, be increased at any time by shareholders owning two-thirds of the stock, according to the provisions of an act of Congress approved May 1, 1886; and in case of the increase of the capital of the association each shareholder shall have the privilege of subscribing for such number of shares of the proposed increase of the capital stock as he may be entitled to according to the number of shares owned by him before the stock is increased.

6—The board of directors, a majority of whom shall be a quorum to do business, shall elect one of its members president of this association, who shall hold his office (unless he shall be disqualified, or be sooner removed by a majority vote of the board) for the term for which he was elected a director. The directors shall have power to elect a vice-president, who shall also be a member of the board of directors, and who shall be authorized, in the absence or inability of the president from any cause, to perform all acts and duties pertaining to the office of the president, except such as the president only is authorized by law to perform, and to elect or appoint a cashier and such other officers and clerks as may be required to transact the business of the association; to fix the salaries to be paid to them, and continue them in office, or to dismiss them as in the opinion of a majority of the board the interests of the association may demand.

The directors shall have power to define the duties of the officers and clerks of the association, to require bonds from them, and to fix the penalty thereof; to regulate the manner in which elections of directors shall be held, and to appoint judges of the elections; to make all by-laws that it may be proper for them to make, not inconsistent with law, for the general

regulation of the business of the association and the management of its affairs, and generally to do and perform all acts that it may be legal for a board of directors to do and perform under the Revised Statutes aforesaid.

7—This association shall continue for the period of ninety-nine years from the date of the execution of its organization certificate, unless sooner placed in voluntary liquidation by the act of its shareholders owning at least two-thirds of its stock, or otherwise dissolved by authority of law.

8—These articles of association may be changed or amended at any time by shareholders owning a majority of the stock of the association, in any manner not inconsistent with law; and the board of directors or any three shareholders may call a meeting of the shareholders for this or for any other purpose, not inconsistent with law, by publishing notice thereof for thirty days in a newspaper published in the town, city, or county where the bank is located, or by mailing to each shareholder notice in writing thirty days before the time fixed for the meeting.

*In witness whereof we have hereunto set our hands this.....*
*day of.....*

(*To be signed by at least five natural persons, preferably the applicants.*)

| | |
|---|---|
| ..... ..... | ..... ..... |
| ..... ..... | ..... ..... |
| ..... ..... | ..... ..... |
| ..... ..... | ..... ..... |
| ..... ..... | ..... ..... |

# TYPICAL BY-LAWS FOR NATIONAL BANKS

## BY-LAWS OF THE (HERE INSERT THE TITLE OF THE BANK) ORGANIZED UNDER THE NATIONAL BANKING LAWS OF THE UNITED STATES

### *Annual Meeting*

SECTION 1. The regular annual meetings of the shareholders of this bank for the election of directors shall be held at its banking house on the day in January of each year provided in the articles of association, between the hours of 10 and 4 of said day. It shall be the duty of the board of directors, within one month prior to the time of said election, to appoint three shareholders to be judges of said election, who shall hold and conduct the same, and who shall, after the election has been held, notify under their hands the cashier of this bank of the result thereof and the names of the directors elect.

SECTION 2. The cashier, upon receiving the returns of the judges of the elections as aforesaid, shall cause the same to be recorded upon the minute book of the bank, and shall notify the directors elect of their election and of the time at which they are required to meet at the banking house of the bank for the purpose of organizing the new board. If at the time fixed for the meeting of the directors elect there is not a quorum in attendance, the members present may adjourn from time to time until a quorum is secured, and no business shall be transacted prior to taking the oath of office as prescribed by law.

SECTION 3. If, for any cause, the annual election of directors is not held on the date fixed in the articles of association, the directors in office shall order an election to be held on some other day, of which special election notice shall be given in accordance with the requirements of section 5149, United States Revised Statutes, judges appointed, returns made and recorded, and the directors elect notified, according to the provisions of sections one and two of these by-laws.

### *Officers*

SECTION 4. The officers of this bank shall be a president, vice-president (who shall be members of the board of directors), cashier, and such other officers as may be from time to time required for the prompt and orderly transaction of its business, to be elected or appointed by the board of directors, by whom their several duties shall be prescribed.

SECTION 5. The president shall hold his office for the current year for which the board of which he shall be a member was elected, unless he shall resign, become disqualified, or be removed; and any vacancy occurring in the office of president or in the board of directors shall be filled by the remaining members.

SECTION 6. The cashier and the subordinate officers and clerks shall be appointed to hold their offices, respectively, during the pleasure of the board of directors.

SECTION 7. The cashier of this bank shall be responsible for all the moneys, funds, and valuables of the bank, and shall give bond, with security to be approved by the board, in the penal sum of.....dollars, conditioned for the faithful and honest discharge of his duties as such cashier, and that he will faithfully apply and account for all such moneys, funds, and valuables, and deliver the same to the order of the board of directors of this bank, or to the person or persons authorized to receive them.

SECTION 8. The president of this bank shall be responsible for all such sums of money and property of every kind as may be intrusted to his care or placed in his hands by the board of directors or by the cashier, or otherwise come into his hands as president, and shall give bond with security to be approved by the board, in the penal sum of.....dollars, conditioned for the faithful discharge of his duties as such president, and that he will faithfully and honestly apply and account for all sums of money and other property of this bank that may come into his hands as such president, and pay over and deliver the same to the order of the board of directors, or to any other person or persons authorized by the board to receive the same.

SECTION 9. The teller shall be responsible for all such sums of money, property and funds of every description as may from time to time be placed in his hands by the cashier, or otherwise come into his possession as teller; and shall give bond, with security to be approved by the board, in the penalty of .....dollars, conditioned for the honest and faithful discharge of his duties as teller, and that he will faithfully apply, account for, and pay over all moneys, property, and funds of every description that may come into his hands, by virtue of his office as teller, to the order of the board of directors aforesaid, or to such person or persons as may be authorized to demand and receive the same.

### *Seal*

SECTION 10. The following is an impression of the seal adopted by the board of directors of this bank:

(IMPRESSION OF SEAL)

### *Conveyance of Real Estate*

SECTION 11. All transfers and conveyances of real estate shall be made by the association, under seal, in accordance with the orders of the board of directors, and shall be signed by the president or cashier.

### *Increase of Stock*

SECTION 12. Whenever an increase of stock shall be determined upon, in accordance with law, it shall be the duty of the board to notify all the share-

holders of the same, and to cause a subscription to be opened for such increase of capital. In the increase of capital each shareholder shall have the privilege of subscribing for such number of shares of the new stock as he may be entitled to subscribe for, according to his existing stock in the bank. If any shareholder fails to subscribe for the amount of stock to which he may be entitled, the board of directors may determine what disposition shall be made of the privilege of subscribing for the unsubscribed stock.

### *Banking Hours*

Section 13. This bank shall be opened for business from.....o'clock a.m. to.....o'clock p.m. of each day of the year, excepting Sundays and days recognized by the laws of this State as holidays.

### *Directors' Meetings*

Section 14. The regular meetings of the board of directors shall be held on the.....of each month. When any regular meeting of the board of directors falls upon a holiday, the meetings shall be held on such other day as the board may previously designate. Special meetings may be called by the president, cashier, or at the request of three or more directors.

### *Discount Committee*

Section 15. There shall be a committee, to be known as the discount committee, consisting of the president, cashier, and.....directors appointed by the board every.....months, to continue to act until succeeded, who shall have power to discount and purchase bills, notes, and other evidences of debt, and to buy and sell bills of exchange; and who shall, at each regular meeting of the board of directors, submit in writing a report of all bills, notes, and other evidences of debt discounted and purchased by them for the bank since their last report. The board of directors shall approve or disapprove the report of the discount committee, such action to be recorded in the minutes of the meeting.

### *Minute Book*

Section 16. The organization papers of this bank, the returns of the judges of the elections, the proceedings of all regular and special meetings of the directors and of the shareholders, the by-laws and any amendments thereto, and reports of the committees of directors shall be recorded in the minute book; and the minutes of each meeting shall be signed by the president and attested by the cashier.

### *Transfers of Stock*

Section 17. The stock of this bank shall be assignable and transferable only on the books of this bank, subject to the restrictions and provisions of the national banking laws; and a transfer book shall be provided in which all assignments and transfers of stock shall be made.

Section 18. Transfers of stock shall not be suspended preparatory to the declaration of dividends; and, unless an agreement to the contrary shall be expressed in the assignments, dividends shall be paid to the shareholders in whose name the stock shall stand at the date of the declaration of dividends.

Section 19. Certificates of stock, signed by the president and cashier, may be issued to shareholders, and the certificates shall state upon the face thereof that the stock is transferable only upon the books of the bank; and when stock is transferred, the certificates thereof shall be returned to the bank, canceled, preserved, and new certificates issued.

### *Expenses*

Section 20. All the current expenses of the bank shall be paid by the cashier, who shall every six months, or oftener if required, make to the board a detailed statement thereof.

### *Contracts*

Section 21. All contracts, checks, drafts, etc., and all receipts for circulating notes received from the Comptroller of the Currency shall be signed by the president or cashier.

### *Examinations*

Section 22. There shall be appointed by the board of directors a committee of.....members, exclusive of the president and cashier, whose duty it shall be to examine every six months the affairs of this bank, count its cash, and compare its assets and liabilities with the accounts of the general ledger, ascertain whether the accounts are correctly kept, and the condition of the bank corresponds therewith, and whether the bank is in a sound and solvent condition, and to recommend to the board such changes in the manner of doing business, etc., as shall seem to be desirable; the result of which examination shall be reported in writing to the board at the next regular meeting thereafter.

Section 23. The board of directors shall have power to change the form of the books and accounts when deemed expedient and define the manner in which the affairs of the bank shall be conducted.

### *Quorum*

Section 24. A majority of the directors is required to constitute a quorum to do business. Should there be no quorum at any regular or special meeting, the members present may adjourn from day to day until a quorum is in attendance. In the absence of a quorum no business shall be transacted.

### *Changes in By-Laws*

Section 25. These by-laws may be changed or amended by the vote of a majority of the directors.

# SUCCESSION OF A STATE BANK BY A NATIONAL BANK

THERE are two ways in which a state bank may enter the national banking system:

Re-organization.
Conversion.

1. *Re-organization*—When it is deemed advisable by the directors and stockholders to transform their bank into a national association by re-organization, the dominant motive is normally the desire to effect a re-distribution of stock, and sometimes to provide for a more satisfactory investment of loanable funds.

In re-organization proceedings, the method of incorporation is precisely the same as that followed in organizing a new bank, outlined step by step in the preceding chapter.

After it has received its authority from the Comptroller to begin business, the re-organized bank is privileged to enter into a contract to purchase the assets of the liquidating state bank, and to assume its liabilities to depositors and other creditors, *providing* that all assets so acquired are of a satisfactory value, and conform to the requirements of the National Bank and the Federal Reserve Acts. A copy of this contract, properly signed and executed, is forwarded to the Comptroller's office, together with an agreement signed by the directors of the re-organized bank, to the effect that the assets to be acquired from the state bank will not include real estate, except banking premises; stocks; loans secured by real estate, except those permitted by Sec. 24 of the Federal Reserve Act; nor any loans in excess of 10% of the capital stock of the national bank actually paid-in and unimpaired, and 10% of unimpaired surplus fund, except as authorized by the amendments of October 22, 1919, to Section 5200 U. S. R. S. (See Loans, page 61.)

The law does not provide for the conversion of private banks into national banks. If it is desired to effect a re-organization, as in the case of a state bank liquidated for that purpose, an organization

from the beginning must be undertaken as provided in the previous chapter.

2. *Conversion*—In converting a state bank into a national bank, there is not a dissolution of the state institution, but merely a change of title and whatever re-arrangements in the converting bank's affairs are necessary to make its banking practices conform to the National Bank and Federal Reserve Laws. The national bank is liable for all contracts of the former state institution, and may enforce all previous contracts.

The preliminary conditions necessary to the initial move where a state bank wishes to convert into a national bank are:

(a) That the laws of the state in which the bank is located shall not forbid conversion of a state into a national banking association.

(b) That the bank's unimpaired capital shall be sufficient to entitle it to become a national banking association (see "Capital," page 23). Where it is necessary to increase the capital stock of a state bank to make it eligible as a national bank, or change the par value of shares, the change must be legally effected under the laws of the state, and a certificate to this effect must be obtained from the proper state authority.

(c) That shareholders owning at least 51% of the state bank's stock shall have voted in favor of the proposed conversion.

These conditions obtaining, the bank notifies the Comptroller of its purpose to enter the national banking system, asks for a reservation of title for 60 days, and agrees that any assets which cannot be legally held by a national bank will be disposed of before authorization to begin business as a national bank is given (see "Loans," pages 61-65). Form for this application is furnished by the Comptroller.

Accompanying the application to convert should be a draft for an amount necessary (ordinarily $100), (see "Organization Application," pages 23-25) to cover the expenses of examination. When the Comptroller has approved the application, he will so notify the bank, and a meeting of its shareholders should be called, at which a resolution should be adopted by a vote representing at least 51% of the capital stock of the bank, authorizing the directors to convert the bank into a national association, as provided for in Sec.

5154, United States Revised Statutes, and acts amendatory thereof. The directors, or a majority of them, must be authorized also to execute Articles of Association, Organization Certificate, all other necessary papers, and to perform all the necessary acts required in the process of conversion.

Forms for the Articles of Association, the Organization Certificate, and the Certificate of Payment of Capital, are furnished by the Comptroller, and the procedure is the same as that outlined under these heads in the preceding chapter (see pages 25, 26, 27, 29).

Since the directors of every national bank must number at least five, if the board of a converting state bank is composed of less than that number, an increase must be effected under the laws of the state, prior to the execution of any conversion papers other than the application. Duly qualified directors of a state bank may continue as directors of a national bank, regardless of the number of shares owned by each, until the first annual election is held. Then, to be eligible for re-election, each must own the number of shares required by the National Bank Act (see "Directors," page 27). Oaths as directors of a national bank must be taken.

It has been held by the Solicitor of the Treasury that a trust company organized under state laws may convert into a national bank, providing it complies with all conditions of the law, divesting itself of all trust business except such as the Federal Reserve Board may authorize it to retain under the Federal Reserve Act.

# CIRCULATION

FOR nearly half a century it was obligatory upon every national bank to keep a certain amount of government bonds on deposit with the Treasurer of the United States, regardless of whether or not the bank desired to issue circulation. But with the passage of the Federal Reserve Act, this requirement—hitherto an outstanding feature of the national banking system—was eliminated, except where a bank desired to issue circulating notes.

Although the Federal Reserve Act provides for the issuance of currency by the Federal Reserve Banks (secured by either government bonds or by other collateral), there is nothing in the Act as it now stands which would abrogate the right of the national banks to issue currency secured by government bonds. It appears that the purpose of those who drafted the Federal Reserve Act was that the Federal Reserve Banks should ultimately share with the Government the sole right of currency issue, but up to the present there has been only one official step to bring about this situation. Under Section 18 of the Federal Reserve Act, the volume of 2% gold bonds eligible for national bank circulation has been reduced by $57,789,000. Bonds to this amount have been acquired by the Federal Reserve Banks, and converted into 3% bonds and 3% one year notes, without the circulation privilege.

Every national bank is entitled to issue circulating notes to the amount of its paid in capital. These notes are secured by United States interest bearing bonds which are deposited with the Treasurer of the United States. Circulation is issued not on the basis of the market value of these bonds, but on the basis of their par value.

There are at the present time three classes of government bonds which are acceptable as security for national bank circulation, viz.:

2% consols of 1930.
2% Panama Canal bonds.
4% bonds of 1925.

These bonds cannot be procured from the Treasury Department, but may be purchased in the open market through dealers in securi-

ties, such as The National City Company and others. For a number of months past none of the Panama Canal bonds have been available in the open market, practically all of them being deposited in Washington to secure existing bank circulation. The 2's consols in recent months have been selling at about 103 and interest, and the 4%'s have been selling at from 103½ to 104 and interest.

Where a bank determines to issue currency, it purchases in the open market bonds having a par value equivalent to the amount of circulation to be issued, and sends these to the Comptroller of the Currency for deposit with the Treasurer of the United States. Only registered bonds are eligible as security for circulation, but where coupon bonds of either of the eligible issues are presented, they will be exchanged by the Comptroller for the registered bonds. The Comptroller authorizes payment of interest on the bonds of the bank depositing them, and the Treasurer of the United States will pay the interest, by check, to the order of the depositing bank.

All details in connection with the issuance of bank circulation are cared for by the Comptroller's office. This includes the engraving of plates, printing, etc. Ordinarily a period of about 30 days is required to engrave the plates and print bank notes, but at present (1923) about two months is required. No order for circulation is acted upon until bonds have been deposited to secure the proposed circulation and advanced payment of the cost of engraving ($130 per plate) has been made.

National bank notes are issued in denominations of $5, $10, $20, $50, and $100. Up until late in 1917 banks were prohibited from circulating notes of less denomination than $5, but the only limitation upon the denomination of bank notes as the law now stands is that no bank may have in circulation at any one time more than $25,000 in $1 and $2 notes. However, up to the present time, no plate designs for notes of $1 and $2 denominations have been approved, consequently no national bank notes of these denominations have thus far been printed.

The Comptroller of the Currency will supply detailed information as to forms that should be observed in ordering circulation and as to the mechanical details of which it is necessary to take cognizance in this connection.

The profit which a bank makes upon its circulation is determined

chiefly by two factors: the average rate of interest in the money market, and the price at which bonds to secure the circulation are purchased.

Circulation secured by the 2% bonds is subjected to a semi-annual tax of ¼ of 1%; circulation secured by bonds bearing a rate of interest higher than 2% is subjected to a semi-annual tax of ½ of 1%. Other expenses in connection with national bank circulation include (1) 5% of the total amount of circulation, which must be kept on deposit in actual money, without interest, with the Treasurer of the United States to redeem notes sent into the Treasury; (2) the sum that must be set aside as a sinking fund to absorb the premium on bonds which, purchased above par, the government must ultimately redeem at 100; and (3) the small expense in connection with redemptions, etc. The profit on circulation, therefore, above what might be obtained by loaning a sum of money equivalent to the cost of the bonds in the open market, is equal (say in a 6% market, to take a concrete case) to the net receipts minus 6% on the cost of the bonds.

The method of computing this profit may be illustrated much more simply by the following tabulation, which shows each step taken in the calculation. The hypothesis is that $100,000 worth of circulation has been taken out, secured by 4% bonds selling at 104.068, and that the prevailing rate of interest in the money market is 6%.

| | | |
|---|---|---|
| Cost of bonds (Oct., 1922) | $104,068.00 | |
| Circulation obtainable | 100,000.00 | |
| Interest received on bonds | 4,000.00 | |
| Interest on circulation at 6%, less 5% redemption fund | 5,700.00 | |
| Total gross receipts | | $9,700.00 |
| Deduction for tax | $1,000.00 | |
| Deduction for expenses | 62.50 | |
| Deduction for sinking fund | 1,669.15 | |
| Total deductions | | 2,731.65 |
| Net receipts (difference between gross receipts and total deductions) | | 6,968.35 |
| Interest on cost of bonds at 6% | | 6,244.08 |
| Profit on circulation in excess of 6% on the investment | | $724.27 |
| Extra profit in terms of per cent | | .696% |

It is provided by the Federal Reserve Act that any bank desiring to retire all, or a part, of its circulating notes may file with the Treasurer of the United States an application to sell for its account, at par and accrued interest, the bonds held as security for circulation that is to be retired.

# CHANGES IN CAPITAL

1. *Increase of Capital*—A bank contemplating increase of its capital should first communicate with the Comptroller, since that official's approval is necessary. Accompanying the notification that his consent to the increase has been given, the Comptroller will send the proper forms and instructions.

A copy of the formal application to increase capital is shown below:

....., 19....

To the Comptroller of the Currency,
Washington, D. C.

Sir:

Acting under the authority of a resolution of the Board of Directors, I request approval of this application to increase the capital stock of The.....
.....National Bank of.....
from $..... to $..... and that the necessary blanks and instructions be furnished.

It is proposed to declare a dividend of ..... per cent, or $....., payable as follows:

.....per cent., or $....., to be paid in cash to enable shareholders to make payment on the new stock.

.....per cent., or $.....to be made by a stock dividend from the undivided profits of the bank.

That portion of the increased capital which is to be paid for in cash, will be sold at $..... per share, and the present shareholders will be permitted to subscribe for the new stock in proportion to the amount of stock now held by them.

The purchase of the business of the .....
bank is contemplated in connection with the increase.

On this date the books of this bank show the following:

Capital .....$.....
Surplus .....$.....
Undivided profits .....$.....
Total deposits .....$.....
Total resources .....$.....

(Population of place in which bank is located.....)

.....
President or Cashier.

The affirmative vote of the owners of two-thirds the bank's capital stock is necessary, and the shareholders must be given notice (usually 30 days in advance) of the meeting at which the proposition is to be submitted, as required by the bank's Articles of Association. Shareholders unable to be present at the meeting may be represented by proxy. (See "Proxy," pages 58-59.)

No increase is valid until the whole amount is paid in, certified to the Comptroller, and his certificate of approval is issued.

*Increase of Capital by Stock Dividend*—In view of the fact that the net profits of a bank in excess of the required surplus may be distributed by means of a dividend and the proceeds made available in effecting an increase in capital, the Comptroller of the Currency holds that such application may be made directly, that is, by means of a stock dividend.

In the event that the net undivided profits are not sufficient such an amount as may be necessary may be transferred, by authority of the directors, from surplus to the undivided profit account, provided that the surplus is not reduced below twenty per cent. of the capital as increased.

The initial proceedings in a stock dividend increase are the same as in an ordinary increase of capital, that is, the submission to the Comptroller of a formal application from the Board and report of the vote of the shareholders authorizing the capital increase.

In addition there is required a report of the dividend and certification by the president or cashier of the payment of the increase. It is permissible to effect an increase of capital in whole or in part by means of a stock dividend (see page 44, forms of applications, resolution and certificate).

When any bank that is a member of the Federal Reserve System increases its capital and surplus, it is obliged to file with its Federal Reserve Bank an application (form furnished by Federal Reserve Bank) for an additional amount of capital stock of the Federal Reserve Bank of its district equal to 6% of such increase. Upon approval of the application by the Federal Reserve Agent, and the Federal Reserve Board, the applying bank pays to its Federal Reserve Bank one-half the amount of its additional subscription; the remaining half is subject to call when deemed necessary by the Federal Reserve Board.

Federal law makes no provision governing the distribution of new national bank stock when the capital is increased, but under the common law, (where not modified by statute) the shareholders of a corporation have the right to participate in the increase in capital proportionately to the number of shares held by each. Waiver of that right should be obtained before allotting any of the shares to others. The right of a shareholder to subscribe to new stock, however, must be exercised within a fixed or reasonable period of time.

2. *Reduction of Capital*—Approval of the Comptroller and also of the Federal Reserve Board must be obtained before a national bank may reduce its capital stock. A bank contemplating such action should advise the Comptroller, giving the reasons for the proposed reduction, and should similarly advise the Federal Reserve Bank of its district.

On receipt of the application, the Comptroller will advise the bank what conditions must be met before approval may be given, viz.:

(a) That, if the bank has not been examined recently, or if its affairs were not satisfactory at the last examination, a special examination be made.

(b) That any losses which may have been sustained be charged off.

(c) That any loans which are excessive, or will become excessive by reason of the reduction, be reduced to the legal limit.

(d) That any other conditions shown to be unsatisfactory by the examiner's report be corrected.

When all matters have been satisfactorily adjusted, (providing adjustment is necessary) the Comptroller will indicate his approval of the reduction, but will not give his formal certificate of approval until a resolution favoring the plan has been adopted by the owners of two-thirds the bank's stock, and has been certified to him. Proper notice, as provided for in the Articles of Association, must be given all shareholders in advance of the date of the meeting at which the question is to be submitted. The bank's circulation (if excessive) must be reduced to not more than the amount of capital after reduction, by the deposit of lawful money with the Treasurer of the United States.

The reduction of capital becomes operative upon issuance of the Comptroller's certificate. Each shareholder has the right to par-

ticipate in the reduction in proportion to the number of shares held, and receive cash in payment, unless the whole, or a portion of the amount represented by the reduction, is to be charged off losses. In this event, the assets so charged off should be trusteed, and the proceeds distributed among those who were shareholders of record at the time of the reduction.

With the consent of all the shareholders, the assets may be realized upon and the proceeds carried to profit account.

No part of the sum set free by capital reduction can be carried to surplus or undivided profits without the unanimous consent of the shareholders.

When reduction is made, the shareholders should return their old certificates; new stock certificates, for the capital as reduced, should then be issued. Issuance of fractional shares is not unlawful.

Upon receipt of the proper application, (form furnished by the Federal Reserve Bank) the Federal Reserve Bank will cancel the stock which the applying national bank is entitled to surrender, and refund the amount due.

3. *Restoring Impaired Capital*—When the examination of a national bank shows that its losses exceed the amount of its surplus and undivided profits, thus impairing its capital, the Comptroller sends a formal notice to the bank. A meeting of the shareholders, (who must be notified 30 days in advance) is called and at this meeting the shareholders must adopt one of the two courses that are open, viz.:

(a) Voluntary liquidation.
(b) Making up the deficiency by assessment of the bank's stock.

If voluntary liquidation is the course elected, the procedure is the same as outlined in the next chapter. (See "Liquidation," page 49.)

When an assessment is agreed upon, (a majority stock vote being required to legalize the assessment) each shareholder pays in proportion to the number of shares he holds, and the entire sum must be paid in cash within three months after receipt of the Comptroller's notice. A certificate, signed by the cashier of the bank and stating that payment has been completed, is sent to the Comptroller.

If any shareholder refuses to meet the assessment levied upon his stock, the board of directors shall cause to be sold at public

auction a sufficient amount of the delinquent shareholder's stock to make good the deficiency. Before stock can be thus sold, however, 30 days' notice must be given by posting notice of the sale in the bank office, and by publishing such notice in a local newspaper.

# LIQUIDATION

WHEN a national bank is to be placed in liquidation, the Comptroller should be notified, as the initial step, so that the proper blanks and instructions may be furnished. It is then customary to call a meeting of the shareholders, and before liquidation proceedings may go farther, the proposal must receive the affirmative vote of the owners of two-thirds of the bank's stock.

After the adoption of the resolution for liquidation, the directors cause notice of the fact to be certified, under seal of the bank, to the Comptroller by the president or cashier. Also, notice of the proposed liquidation, requesting creditors to present their claims against the bank for payment, must appear for a period of two months in a newspaper published in New York City, and also in a newspaper published in the place where the bank is located. Weekly papers may be used.

Lawful money to provide for the redemption of circulation must be deposited with the Treasurer of the United States within six months from the date of liquidation.

These requirements having been met, Federal law ceases to govern, and the affairs of the bank pass into the hands of its shareholders, for settlement in whatever legal way may be deemed advisable. It is usual, however, for the shareholders to appoint a liquidating agent or committee, and to require the agent or committee to render semi-annual reports to the Comptroller showing the progress of the liquidation until it is completed. Forms for these reports are furnished by the Comptroller's office, and although this office has no authority to compel rendering of such reports, it is obviously to the advantage of all parties concerned that an official record of the liquidation proceedings should be on file.

Officers of a bank in liquidation have no authority to bind the shareholders except in transactions arising directly from the closing of the bank's affairs, unless such authority is expressly conferred by the shareholders.

Any shareholder who is dissatisfied with the manner in which the

liquidation is being conducted, may go into court and ask for the appointment of a receiver.

Although the point is not covered by the law, it has been found most advisable for the liquidating agent or committee to secure the authority of the board of directors before disposing of the assets of the bank.

The liquidating bank must file with its Federal Reserve Bank (form furnished by Reserve Bank) an application for surrender and cancellation of the Federal Reserve Bank stock that is held, and for the refund of all balances due to the liquidating bank.

# CONSOLIDATION

THERE are three distinct circumstances in which consolidations of national banks are effected:

1—When neither bank is placed in liquidation.

2—When one bank is placed in liquidation.
(a) Without an increase of capital.
(b) With an increase of capital.

3—When both banks are placed in liquidation.

1. *Neither bank liquidating*—Until the passage of an amendment to the National Bank Act on November 7, 1918, it had always been necessary for at least one of two consolidating banks to liquidate. The law as it now stands, however, permits consolidation of banks without liquidation of either, where such a course is desired. The two banks that are to merge must, however, be located in the same "county, city, town, or village."

After it has been informally agreed that two or more banks are to consolidate, an application to pursue such a course is sent to the Comptroller, who, if he approves, will return notice of his approval, together with instructions as to course of procedure and the forms that must be executed.

The directors of the two associations then enter into an agreement covering the terms of consolidation, which must be approved by the owners of at least two-thirds the capital stock of each institution. Before a meeting of the shareholders to consider the consolidation agreement may be held, it must have been advertised for four consecutive weeks in a newspaper published in the place where the banks are located, and notices of the meeting must have been sent to each shareholder, by registered mail, at least 10 days before the meeting.

A certified copy of the resolution of the shareholders approving the consolidation (this certified copy containing a complete recital of the consolidation agreement) must be sent to the Comptroller, who will issue a formal certificate approving the consolidation.

Where an increase in capital is provided in the consolidation agreement, or where there is in the agreement a provision requiring the paying in of cash in addition to the transfer of assets, to equalize the value of the capital stock, it is necessary to furnish to the Comptroller's office a sworn certificate, executed by the president or cashier of the consolidated bank, showing that such increase has been paid in cash.

Following is a copy of the required certificate:

## CERTIFICATE OF PAYMENT OF CAPITAL IN CONNECTION WITH CONSOLIDATION OF

THE ..... NATIONAL BANK OF .....
and
THE ..... NATIONAL BANK OF .....
Under the Act November 7, 1918.

WHEREAS, a contract was entered into on the.....day of.....
....., 19...., between The ..... National Bank of
..... and The ..... National Bank of
....., providing for the consolidation of these two associations under the charter of "....." and the title of "....."

AND WHEREAS, said contract provides that the capital of the consolidated association shall be $.....; surplus $.....; and undivided profits $.....; and that The .....National Bank .....
..... shall furnish net assets above all liabilities of that association, equal to $..... of said capital, surplus and undivided profits, and that The ..... National Bank .....shall furnish net assets equal to $..... of said capital, surplus and undivided profits.

AND WHEREAS, said contract further provides that in the event that there is not sufficient net assets in either associaion to make good its proportion of capital, surplus, and undivided profits of $..... the shareholders of the association not having sufficient assets to make good its proportion shall pay the difference in cash.

Now, it is hereby certified that The .....
National Bank .....has on hand net assets that are to be transferred to the consolidated bank above all liabilities amounting to $..... and the Bank's shareholders have paid in cash the sum of $ ..... equal to $..... of the capital, surplus, and undivided profits of the consolidated bank; and that The ..... National Bank .....
has on hand net assets that are to be transferred to the consolidated bank above all liabilities amounting to $..... and the Bank's shareholders have paid in cash the sum of $..... equal to $..... of the capital, surplus, and undivided profits of the consolidated bank.

Now, it is hereby certified that The ..... National Bank ..... has furnished net assets above all liabilities, amounting

to $..... and the Bank's shareholders have paid in cash the sum of $....., equal to $..... of the capital, surplus, and undivided profits of the consolidated bank; and that The ..... National Bank ..... has furnished assets, above all liabilities, amounting to $..... and the Bank's shareholders have paid in cash the sum of $....., equal to $..... of the capital, surplus, and undivided profits of the consolidated bank.

.....
*President or Cashier.*

Seal of Bank

Subscribed and sworn to before me this ..... day of ..... A.D., 19.....

.....
*Notary Public* *County*

Bonds (on deposit to secure circulation) held by either bank in excess of the capital of the consolidated bank, must be withdrawn before the consolidation is approved by the Comptroller's office. These bonds will be released upon the deposit of lawful money to retire outstanding surplus circulation, providing the usual technicalities are complied with. If bonds are to be transferred to the consolidated bank, it will be necessary only to furnish the Treasurer's receipts to the Comptroller.

Under the Federal Reserve Act, shares of the capital stock of Federal Reserve Banks owned by member banks cannot be transferred or hypothecated. This provision prevents a transfer of Federal Reserve stock by purchase, but does not prevent a transfer by operation of law. Thus, when two or more national banks consolidate, the consolidated bank continues the corporate identity of one of the consolidating banks, and the consolidated bank becomes owner of the Federal Reserve stock of the other consolidating banks as soon as the consolidation takes effect. In the event that the consolidation results in a change of title, the certificates of stock issued in the names of the consolidating banks should be surrendered and cancelled, and a new certificate will be issued.

2. *Consolidation with one bank liquidating*—Where the capital of the absorbing bank is not to be increased by consolidation, the directors of that bank may enter into a contract with the directors or agents of the liquidating bank to purchase its assets, assume its

liabilities, and to pay the value of assets purchased in excess of liabilities to depositors and other creditors, minus any expense incident to liquidation.

If the capital stock of the absorbing bank is to be increased by an amount equal to the stock of the liquidating bank, the additional shares may be sold to the stockholders of the liquidating bank, with the consent of the shareholders of the absorbing bank. Providing thus for the shareholders of the liquidating bank, the directors of the continuing bank contract to take over the assets and liabilities of the liquidating bank.

The Federal law is construed as requiring payment of national bank capital, either original or on account of increase, in cash. Hence, in the case under discussion, the right of the continuing bank to accept stock or assets representing stock of the liquidating bank, and to issue therefor certificates of stock in the continuing bank, is not recognized.

Since it is illegal for a bank to transfer or hypothecate its Federal Reserve Bank shares, the liquidating bank which figures in a consolidation must surrender its Federal Reserve stock and the bank resulting from the merger must apply for new stock. As to the allotment of stock when a national bank increases its capital, Federal law makes no provision. An analysis of the common law covering such cases is given under "Capital," page 44.

3. *Consolidation with both banks liquidating*—Both banks party to a proposed consolidation may be placed in voluntary liquidation, then organize anew under a different corporate title and the new bank acquire, in the manner outlined previously in this chapter, the assets and liabilities of the liquidating banks. This method enables the incorporators to place the stock as they desire. A contract covering the taking over of the liquidating banks' assets and liabilities must be made, and an examination of the assets to be purchased will be made by a national bank examiner at the expense of the new bank.

A bank which is in good faith closing its affairs for the purpose of consolidating with another national bank, is not required to deposit lawful money for its outstanding circulation, providing transfer of the securing bonds is properly authorized, and the circulation liability assumed.

# CORPORATE EXISTENCE

THE National Banking Law of 1863 provided that national banks should have a corporate existence for the period named in the articles of association, but not to exceed twenty years. In the revision and re-enactment of the law in 1864, the corporate existence was fixed at twenty years from the date of organization. By the Act of June 12, 1882, the associations were authorized to extend their corporate existence for an additional period of twenty years, and by the Act of April 12, 1902, for a further period of twenty years.

In 1922, a number of banks organized in 1863 reached the end of their corporate existence. In anticipation of this condition the Comptroller, in his Annual Report to Congress in 1921, submitted two bills; First, for a third extension of charters for a period of twenty years, to be effected as had been the prior extensions, and the other to grant to national banking associations perpetual succession. The latter bill received favorable consideration by the Committee on Banking and Currency of the House of Representatives, and was passed by the House. The bill had the unanimously favorable consideration of the Senate Committee on Banking and Currency, but when reported to the Senate was amended, fixing ninety-nine years as the period of succession. This amendment being agreed to in conference and the House accepting the report of the conferees, the bill as submitted was passed, and received Presidential approval on July 1, 1922. The Act repealed all laws or parts of laws relating to extension for twenty years, and amended the second section of 5136 U. S. R. S. read as follows:

SEC. 2. That all Acts or parts of Acts providing for the extension of the period of succession of national banking associations for twenty years are hereby repealed and the provisions of paragraph second of Sec. 5136 of the Revised Statutes as herein amended shall apply to all national banking associations now organized and operating under any law of the United States.

This legislation automatically extended for ninety-nine years the period of succession of all banks organized and operating on July 1, 1922, and granted to all banks organized after that date, succession for ninety-nine years from the date or organization.

As evidence of the effect of this legislation upon national banking associations "organized and operating under any law of the United States on July 1, 1922" the Comptroller of the Currency issued to each association a certificate of which the following is a copy:

TREASURY DEPARTMENT

Office of Comptroller of the Currency

*Washington, D. C.,* .....

Whereas, *the Act of Congress of the United States, entitled, "An Act to amend section* 5136, *Revised Statutes of the United States, relating to corporate powers of associations, so as to provide succession therof for a period of ninety-nine years or until dissolved, and to apply said section as so amended to all national banking associations," approved by the President on July* 1, 1922, *provided that all national banking associations organized and operating under any law of the United States on July* 1, 1922, *should have succession until ninety-nine years from that date, unless such association should be sooner dissolved by the act of its shareholders owning two-thirds of its stock, or unless its franchise should become forfeited by reason of violation of law, or unless it should be terminated by an Act of Congress hereinafter enacted;*

Now therefore, *I,* .....

*Comptroller of the Currency, do hereby certify that*.....

.....

....., *in the* ..... *of* .....

*and State of* ....., *was organized and operating under the laws of the United States on July* 1, 1922, *and that its corporate existence was extended for the period of ninety-nine years from that date in accordance with and subject to the condition in the Act of Congress hereinbefore recited.*

In testimony whereof, *witness my hand and Seal of office this* ..... *day of* .....

.....

*Comptroller of the Currency*

## NAME AND LOCATION

WITH the consent of the Comptroller, and by the vote of the shareholders owning two-thirds of the stock, a national bank may change its name or may change its location to any other locality in the same state not more than thirty miles distant.

Due notice of the meeting at which the proposal to change a bank's name or location is to come up, must be given to the stockholders. The resolution adopting the proposal by a two-thirds vote and authorizing the Treasurer of the United States to assign to the bank under its new title any bonds held to secure circulation, must be sent to the Comptroller. An order for plates and circulation to conform to the new title should, of course, be submitted at the same time. (See "Corporate Existence," page 55.)

No change of name or location is valid until the Comptroller's certificate of approval is issued, and a change of name does not in any way affect the liabilities or rights of the bank as they existed under the old name.

# SHAREHOLDERS

(*See "Organization," pages* 23-32; *"Changes in Capital," pages* 44-48; *"Liquidation," pages* 49-50; *"Corporate Existence," pages* 55, *etc.*)

*Meetings*—The annual meeting to elect directors is held "on such day in January of each year" as is specified in the Articles of Association. The law makes no provision as to notice of the annual meeting, but unless the time is definitely fixed in the Articles or By-laws of the bank, it seems that owners of the stock are entitled to the usual 30 days' notice.

For all special meetings, notice should be given as provided for in the Articles, or, in the absence of such provision, 30 days in advance.

*Votes*—Each shareholder is entitled to one vote on each share of stock. No shareholder whose liability for stock subscription is unpaid and past due is allowed to vote. Cumulative voting is not allowed. For example, if 5 directors are to be elected, the owner of 20 shares could not cast 100 votes in favor of one person, but is at liberty only to cast 20 votes for each of the 5 candidates.

The minutes of the annual meeting of shareholders of a national bank should show that sufficient stock was represented at the meeting, in person and by proxy, to constitute a legal quorum under the laws of the state in which the association is located.

At meetings where the bank's Articles of Association are to be amended, a majority vote of all the stock of the bank must be cast, except where a larger proportion is required by law. A resolution providing for change in capital, consolidation, liquidation, or change in name or location, requires the affirmative vote of two-thirds of the stock of the bank.

*Proxy*—Shareholders may vote by proxy, duly authorized in writing, but no "officer, clerk, teller, or bookkeeper" of the bank can act as proxy. Supported by court decisions, the Comptroller holds that a national bank director is an "officer within every sense and meaning of the word."

The proxy cannot vote when the owner of the stock is present and votes.

Even when by its terms it is made "irrevocable," a proxy is always revocable.

An ordinary proxy, being intended for election only, does not empower the proxy to vote for increased capitalization, consolidation or liquidation unless specific power so to do is given.

*Liability*—National bank stockholders are subjected to an extra liability ("for all contracts, debts and engagements" of the bank) equal to the amount of stock held.

*Who may subscribe to stock*—Following are the specific circumstances applying to subscription to a national bank's stock:

(a) *Guardian*—May subscribe if he shows proper authority.

(b) *Trustee*—May subscribe if he shows proper authority.

(c) *Administrator*—Has no authority to subscribe.

(d) *State, county, township or municipality*—Subscriptions should not be received in the name of either.

(e) *Order, lodge, association, etc.*—Evidence must be produced to show the organization is authorized by its rules to buy stock, and that it is legally and financially responsible for an assessment on this stock were one necessary under the National Bank Act.

*Lists*—Every national bank must at all times keep an up-to-date list of the names and residences of all shareholders, and a copy of this list, as of the first Monday of July of each year, verified by oath by the president or cashier, must be forwarded to the Comptroller.

# DIVIDENDS

THE National Bank Act provides that directors of any national bank "may, semi-annually, declare a dividend of so much of the net profit of the association as they shall judge expedient." Although the word "semi-annually" occurs in the language of the act, there appears to be no prohibition against declaration of more frequent dividends, when the bank's directors deem such a course advisable.

Within ten days after a dividend has been declared the president or cashier of the bank must attest to the Comptroller under oath the amount of the dividend, and the amount of net earnings in excess of such dividends.

Circumstances in which dividends may *not* be declared are:

(a) If the bank's surplus fund is not equal to 20 per cent. of its capital stock, and one-tenth of the net profits for the preceding half year is not carried to surplus.

(b) When the bank's balance at the Federal Reserve Bank is below the amount required by law.

(c) If losses have at any time been sustained equal to or exceeding the bank's undivided profits then on hand.

(d) No dividend shall be made, while a bank continues its operation, to an amount greater than the net profits on hand, minus the bank's losses and bad debts. "Bad debts" within the meaning of the National Bank Act are those debts on which interest is past due and unpaid for a period of six months, unless such debts are well secured, and in process of collection.

# LOANS

## *A.*—Granted by a National Bank

1. *On Improved Farm Land or Other Real Estate*—Until the passage of the Federal Reserve Act it was not lawful for a national bank to loan money on real estate. The Reserve Act, however, provided that any national bank not situated in a central reserve city (*i.e.,* New York, Chicago, or St. Louis) could make loans secured by improved and unencumbered *farm land* situated:

> Within its Federal Reserve District;
>
> Within one hundred miles of the place in which the bank is located, irrespective of district lines;

and that it could also make loans secured by improved and unencumbered *real estate* situated:

> Within one hundred miles of the place in which the bank is located, irrespective of district lines.

In all such loans, certain conditions and restrictions must be observed, viz.:

(a) There must be no prior lien upon the land.

(b) The amount of the loan must not exceed 50% of the actual value of the property offered as security.

(c) The aggregate amount of loans on farm land and other real estate is limited by the law to an amount not in excess of one-third of the bank's time deposits[1] at the time of the making of the loan, or one-fourth of the capital and surplus.

(d) The right of a national bank to "make loans" under this section of the Act includes the right to purchase or discount loans already made.

(e) No loan made upon the security of farm lands shall be for longer than five years, and no loan made upon the security of other real estate shall be for longer than one year.

(f) Although this time limit must be rigidly observed, nevertheless, the expiration of the legal period (five years for farm land and one year for other real estate) the bank may properly make a new loan upon the same security for a similar period. The maturing note must be cancelled and a new note taken in its place,

[1] For definition of "time deposits" see "Reserve Requirements," page 76.

but if the original mortgage or deed of trust has been drawn in the first instance so as to cover possible future renewals, a new one need not be made. Under no circumstances must the bank obligate itself in advance to make renewals of such a loan.

(g) In order that real estate loans held by a bank may be readily classified, a statement signed by the officers making the loan and having knowledge of the facts upon which it is based, should be attached to each note secured by a first mortgage on the land by which the loan is secured, certifying in detail as of the date of the loan that all the requirements of law have been duly observed.

2. *To Bank Examiners*—It is unlawful for a national bank or any of its officers, directors, or employees to make any loan or grant any gratuity to a bank examiner.

3. *Limitation to one Person, Company, etc.*—The total loans of a national bank to any person, company, corporation, or firm (or to the several members of a company or firm) shall not at any time exceed 10% of the amount of the capital stock of the bank, actually paid in and unimpaired, and 10% of its unimpaired surplus funds. In the following cases, however, the transaction is NOT considered a loan within the meaning of the Act:

(a) Discount of bills of exchange drawn in good faith against actual existing values including:

Drafts and bills of exchange secured by shipping documents conveying or securing title to goods shipped.

Demand obligations when secured by documents covering commodities in actual process of shipment.

Bankers' acceptances of the kind described in Section 13 of the Federal Reserve Act (see "Bankers' Acceptances," pages 71, 74).

(b) Discount of commercial or business paper actually owned by the person, company, corporation, or firm negotiating such paper.

(c) Discount of notes secured by shipping documents, warehouse receipts or other such documents conveying or securing title covering readily marketable, non-perishable staples, including live stock;

When the actual market value of the property securing the obligation is not at any time less than 115% of the face amount of the notes secured by such document;

When such property is fully covered by insurance.

(d) Discount of notes amounting to 10% of the bank's capital and surplus, secured by not less than a like face amount of bonds or

notes of the United States issued since April 24, 1917, or certificates of indebtedness of the United States.

A national bank may also make loans secured by United States Bonds and Certificates of Indebtedness issued since April 24, 1917, to an unlimited amount if the par value of the security is 105% of the face of the loan. This privilege, however, expires June 30, 1923.

The accommodations under paragraph (c) on preceding page cannot be granted to any one borrower for more than six months in any consecutive twelve months. Furthermore, the aggregate of such accommodations for each borrower, added to direct loans to the same borrower which are subject to the limit of 10% of the capital and surplus, must not exceed 25% of the bank's paid-in unimpaired capital stock and surplus.

4. *On Capital Stock*—It is unlawful for a national bank to make any loans or discounts on the security of the shares of its own capital stock.

Some examples of what a national bank may lend at any one time to any one customer under the amendment to section 5200, of October 22, 1919, expressed in terms of percentage of the bank's capital and surplus.

| | Example 1 | Example 2 | Example 3 | Example 4 |
|---|---|---|---|---|
| Accommodation or straight loans, or loans secured by shares of stock, bonds, or authorized real estate mortgages | 10% | 5% | 5% | 0% |
| Notes secured by warehouse receipts, etc. | 15% | 20% | 15% | 25% |
| Notes secured by a like face amount of Government obligations | 10% | 10% | 15% | 10% |
| Total | 35% | 35% | 35% | 35% |
| Bills of exchange drawn against actually existing values | No limit imposed by law. | | | |
| Commercial or business paper | " | " | " | |
| Notes secured by at least 105% specified United States Government obligations | " | " | " | |

5. *Fees to Bank Officers or Employees*—No officer, director, employee, or attorney of a national bank may receive or consent to receive any fee, commission, gift or thing of value from any person or firm for procuring or endeavoring to procure a loan from the bank.

6. *Balance at Federal Reserve Bank*—The balance which an individual bank is required to carry with the Federal Reserve Bank of its district may be checked against and withdrawn by the member bank for the purpose of meeting an existing liability, but no bank shall at any time make new loans (or pay any dividends) until the total balance required by law is fully restored. (See "Reserve Requirements," page 76.)

7. *United States Notes as Collateral*—No national bank may offer or receive United States notes, or national bank notes, as security for any loan.

## *B.*—Granted to a National Bank

1. *By Federal Reserve Bank*—A Federal Reserve Bank may make loans to its members, on their promissory notes, for a period not exceeding 15 days, provided the promissory notes so given are secured by paper eligible for rediscount or purchase by the Federal Reserve Bank, or by bonds or notes of the United States, or bonds of the War Finance Corporation. (See page 68 ff.)

2. *Limitation of Indebtedness*—No national bank can at any time lawfully be indebted to an amount exceeding its capital stock actually paid in and remaining undiminished by losses or otherwise, except on account of demands of the nature following:

(a) Notes of circulation.

(b) Money deposited with or collected by the association.

(c) Bills of exchange or drafts drawn against money actually on deposit to the credit of the association, or due thereto.

(d) Liabilities to the stockholders of the association for dividends and reserve profits.

(e) Liabilities incurred under the provisions of the Federal Reserve Act.

(f) Liabilities incurred under the provisions of the War Finance Corporation Act.

(g) Liabilities created by the indorsement of accepted bills of exchange payable abroad actually owned by the indorsing bank and discounted at home or abroad.

# INTEREST

1. *Legal Rate*—The legal rate of interest for a national bank is governed by the laws of the state in which the bank is located. Where the laws of a state fix a different interest rate for *banks of issue organized under state laws,* national banks are allowed the same rate. If the state laws do not fix an interest limit, a national bank may charge a rate not exceeding 7 per cent. Such interest may be taken in advance.

The purchase, discount, or sale of a bona fide bill of exchange, payable at a place other than the place of such purchase, discount or sale, at not more than the current rate of exchange for sight drafts in addition to the interest, shall not be considered as taking a greater rate of interest.

A national bank in making contracts for interest on loans is placed on an equal footing with the citizens and with the banks organized under the laws of the state in which it is located. The national bank may contract for, charge, and receive a rate of interest on a loan made to a *resident of another state,* at a rate allowed by the laws of that state, even though such rate is greater than that prescribed by or expressed in the laws of the state in which the bank is located, provided

(a) That the note or contract evidencing the loan is made payable or is to be performed in the state authorizing the greater rate,

(b) And that the transaction is made in good faith.

2. *On Deposits*—Neither the Federal Reserve nor the National Bank Act authorizes a national bank to operate a savings department. Since the capital, deposits and other funds of a national bank may be invested only in conformity with Federal law, the Comptroller's office holds that the sole business of a savings bank which can be legally transacted by a national bank is the paying of interest on deposits. The Federal Reserve Board rules that the term "Savings Account" shall be held to include those accounts of the bank in respect to which, by its printed regulations, accepted by the depositor at the time the account is opened—

(a) The pass book, certificate, or other similar form of receipt must be presented to the bank whenever a deposit or withdrawal is made, and

(b) The depositor may at any time be required by the bank to give notice of an intended withdrawal not less than 30 days before a withdrawal is made.

In an opinion rendered by counsel for the Federal Reserve Board it is held that the Federal law governing the establishment and operation of national banks is superior to any State law so governing. Congress having conferred on national banks the power to pay interest on time deposits (See "Reserve Requirements"), no state can interfere with this right or with the bank's evident right to advertise for and solicit accounts of such a nature.

3. *To Officers, Directors, etc.*—No bank which is a member of the Federal Reserve System can pay to any of its directors, officers, attorneys, or employees, a rate of interest on deposits greater than is paid to any other of the bank's depositors.

# PAPER ELIGIBLE FOR REDISCOUNT AND PURCHASE BY FEDERAL RESERVE BANKS

PAPER which the various Federal Reserve Banks discount and buy falls into three general classifications:

I. Notes, drafts, bills of exchange, trade acceptances and six months' agricultural paper eligible for rediscount by the Federal Reserve Banks.

II. Bankers' acceptances eligible for rediscount by the Federal Reserve Banks.

III. Bills of exchange, trade acceptances and bankers' acceptances purchased in the open market by the Federal Reserve Bank.

Since the circumstances governing the discount, rediscount and sale or the various types of this paper depend largely upon rulings of the Federal Reserve Board, and since these rulings must of necessity be changed from time to time, it would be impractical for the purposes of this book to minutely detail them here. The question of acceptance of drafts or bills of exchange for the purpose of creating dollar exchange is not discussed at all because, although the pertinent rulings are of vital interest to a few banks, the type of paper represented is not of interest to any great number of banks as acceptors.

In the discussion of the other three general classes of paper that follows, the purpose is to set forth the fundamental principles underlying banking practice in this regard, as allowable under the Federal Reserve Act and rulings of the Federal Reserve Board, rather than to give a detailed analysis of all the governing conditions. This latter named phase of the subject is covered in pamphlet form by the Federal Reserve Board itself, and a copy of the current regulations of this body is, of course, at all times in the hands of every member bank.

# I

## *Notes, drafts, bills of exchange, trade acceptances and six months' agricultural paper eligible for rediscount by the Federal Reserve Banks*

Definitions as laid down by the Federal Reserve Board:

*Promissory Note*—An unconditional promise, in writing, signed by the maker, to pay, in the United States, at a fixed or determinable future time, a sum certain in dollars to order or to bearer.

*Draft or Bill of Exchange*—An unconditional order, in writing, addressed by one person to another, signed by the person giving it, requiring the person to whom it is addressed to pay in the United States, at a fixed or determinable future time, a sum certain in dollars to the order of a specified person.

*Trade Acceptance*—A draft or bill of exchange, drawn by the seller on the purchaser, of goods sold, and accepted by the purchaser.

*Six Months' Agricultural Paper*—A note, draft, bill of exchange, or trade acceptance, drawn or issued for agricultural purposes, or based on live stock; that is, a note, draft, bill of exchange, or trade acceptance, the proceeds of which have been used, or are to be used, for agricultural purposes, including the breeding, raising, fattening, or marketing of live stock, and which has a maturity at the time of discount of not more than six months, exclusive of days of grace.

The Federal Reserve Act provides that any Federal Reserve Bank may discount for any of its member banks any note, draft, or bill of exchange, provided:

(a) It has a maturity at the time of discount of *not more than* 90 days, exclusive of days of grace; but if drawn or issued for agricultural purposes or based on live stock, it may have a maturity at the time of discount of not more than six months, exclusive of days of grace.

(b) It arose out of actual commercial transactions; that is, it must be a note, draft, or bill of exchange which has been issued or drawn for agricultural, industrial, or commercial purposes, or the proceeds of which have been used or are to be used for such purposes.

(c) It was not issued for carrying or trading in stocks, bonds, or other investment securities, except bonds and notes of the Government of the United States.

(d) The aggregate of notes, drafts, and bills bearing the signature or indorsement of any one borrower, whether a person, company, firm, or corporation, rediscounted for any one member bank,

whether State or National, shall at no time exceed 10 per cent. of the unimpaired capital and surplus of such bank, but this restriction shall not apply to the discount of bills of exchange drawn in good faith against actually existing values.

(e) It is indorsed by a member bank.

(f) It conforms to all applicable provisions of the Federal Reserve Board's regulations.

No Federal Reserve Bank may discount for any member state bank or trust company any of the notes, drafts, or bills of any one borrower who is liable for borrowed money to such state bank or trust company in an amount greater than 10% of the capital and surplus of that state bank or trust company, but in determining the amount of money borrowed from such state bank or trust company the discount of bills of exchange drawn in good faith against actually existing value and the discount of commercial or business paper actually owned by the person negotiating the same shall not be included.

Any Federal Reserve Bank Bank may make advances to its member banks on their promissory notes for a period not exceeding 15 days, provided that they are secured by notes, drafts, bills of exchange, or bankers' acceptances which are eligible for rediscount or for purchase by Federal Reserve Banks, or by the deposit or pledge of bonds or notes of the United States, or bonds of the War Finance Corporation.

The Federal Reserve Board, exercising its statutory right to define the character of a note, draft, or bill of exchange eligible for rediscount at a Federal Reserve Bank, has determined that

(a) It must be a note, draft, or bill of exchange which has been issued or drawn, or the proceeds of which have been used or are to be used in the first instance in producing, purchasing, carrying, or marketing goods in one or more of the steps of the process of production, manufacture, or distribution, or for the purpose of carrying or trading in bonds or notes of the United States.

(b) It must not be a note, draft, or bill of exchange the proceeds of which have been used or are to be used for permanent or fixed investments of any kind, such as land, buildings, or machinery, or for any other capital purpose.

(c) It must not be a note, draft, or bill of exchange the proceeds of which have been used or are to be used for investment of a purely

speculative character or for the purpose of lending to some other borrower.

(d) It may be secured by the pledge of goods or collateral of any nature, including paper, which is ineligible for rediscount, provided it (the note, draft, or bill of exchange) is otherwise eligible.

Special conditions of eligibility for discount at the Federal Reserve Bank are applied in the case of each class of paper.

## II

## *Bankers' acceptances eligible for rediscount by the Federal Reserve Banks*

Definition: A banker's acceptance within the meanings of the Federal Reserve Board Regulations, is defined as a draft or bill of exchange, whether payable in the United States or abroad, and whether payable in dollars or some other money, of which the acceptor is a bank or trust company, or a firm, person, company, or corporation engaged generally in the business of granting bankers' acceptance credits.

A Federal Reserve Bank may rediscount any such bill having a maturity at the time of discount of not more than three months, exclusive of days of grace, which has been drawn under a credit opened for the purpose of conducting or settling accounts resulting from a transaction or transactions involving any one of the following:

(a) The shipment of goods between the United States and any foreign country, or between the United States or any of its dependencies, or between foreign countries;

(b) The shipment of goods within the United States, providing shipping documents conveying security title are attached at the time of acceptance;

(c) The storage of readily marketable staples,[1] providing the bill is secured at the time of acceptance by a warehouse receipt, or other such document conveying security title.

In order to be eligible, acceptances for any one customer in excess of 10 per cent. of the capital and surplus of the accepting bank

[1] See note, page 74.

must remain actually secured throughout the life of the acceptance. In the case of acceptances of member banks this security must consist of shipping documents, warehouse receipts or other such documents, or some other actual security growing out of the same transaction as the acceptance.

Although a Federal Reserve Bank may legally rediscount an acceptance having a maturity at the time of not more than three months, exclusive of days of grace, it may decline to rediscount any acceptance the maturity of which is in excess of the usual or customary period of credit required to finance the underlying transaction or which is in excess of that period reasonably necessary to finance such transaction.

Special conditions of eligibility for rediscount by the Federal Reserve Bank are laid down in greater detail by the Federal Reserve Board.

## III

### *Bills of exchange, trade acceptances, and bankers' acceptances purchased in the open market by the Federal Reserve Bank*

The Federal Reserve Banks may, under rules and regulations prescribed by the Federal Reserve Board, purchase and sell in the open market, at home or abroad, from or to domestic or foreign banks, firms, corporations, or individuals, bankers' acceptances and bills of exchange of the kinds and maturities made eligible by the Federal Reserve Act for rediscount, with or without the indorsement of a member bank. As a matter of fact, the bulk of the Federal Reserve Banks' transactions in paper of this sort consists in sales and purchases in the open market, under the section of the Act so permitting.

The Federal Reserve Board has determined that a bill of exchange or acceptance to be eligible for purchase by Federal Reserve Banks under this provision of the Federal Reserve Act must

(a) Conform to the relative requirements of the Board's Regulation A. (Reviewed briefly but not completely in Section I of this Chapter, "Notes, drafts, bills of exchange," etc.) Exception:

A banker's acceptance growing out of a transaction involving the storage within the United States of goods which have been actually sold, may be purchased, providing that the acceptor is secured by the pledge of such goods and, providing further, that the bill conforms in other respects to the relative requirements of Regulation A.

(b) Must have a maturity at the time of purchase of not more than 90 days, exclusive of days of grace, unless it is a bill drawn on a banker, when it may have a maturity of three months, exclusive of days of grace.

(c) Must have been accepted by the drawee prior to purchase by a Federal Reserve Bank, unless it is either accompanied and secured by shipping documents, or by a warehouse, terminal, or other similar receipt conveying security title, or bears a satisfactory banking endorsement.

# ACCEPTANCE BY MEMBER BANKS OF DRAFTS AND BILLS OF EXCHANGE

UNDER the Federal Reserve Act any member bank may accept drafts or bills of exchange drawn upon it having not more that six months to run, exclusive of days of grace, which grow out of a transaction, or transactions, involving any one of the following:

(a) The importation or exportation of goods.

(b) Domestic shipment of goods, providing shipping documents conveying or securing title are attached at the time of acceptance.

(c) The storage of readily marketable staples,[1] providing that the bill is secured at the time of acceptance by a warehouse receipt, or other such document conveying or securing title.

The Act limits the aggregate which any bank shall accept without security for any one person, company, firm, or corporation to an amount not exceeding at any time 10% of the bank's paid-up and unimpaired capital stock and surplus. This limit, however, does not apply in any case where the accepting bank remains secured either by attached documents or by some other actual security growing out of the same transaction as the acceptance.

Such bills may be accepted by a member bank up to an amount not exceeding at any time more than one-half of the bank's paid-up and unimpaired capital stock and surplus; or, with the approval of the Federal Reserve Board, up to an amount not exceeding at any time more than one hundred per cent. of the bank's paid-up and unimpaired capital stock and surplus.

In no event shall the aggregate amount of the acceptances growing out of *domestic* transactions exceed fifty per cent. of the bank's capital stock and surplus.

The Federal Reserve Board has determined that any member bank, having an unimpaired surplus equal to at least twenty per

[1] A readily marketable staple within the meaning of these regulations may be defined as an article of commerce, agriculture, or industry of such uses as to make it the subject of constant dealings in ready markets with such frequent quotations of price as to make (1) the price easily and definitely ascertainable and (2) the staple itself easy to realize upon by sale at any time.

cent. of its paid-up capital, which desires to accept drafts or bills of exchange drawn for the purposes described above, up to an amount not exceeding at any time one hundred per cent. of its paid-up and unimpaired capital stock and surplus, may file an application for that purpose with the Federal Reserve Board. Such application must be forwarded through the Federal Reserve Bank of the district in which the applying bank is located.

The approval of any such application may be recinded upon 90 days' notice to the bank affected.

The Reserve Bank requires certain evidences of eligibility, and although the member banks may accept paper having six months to run, it is not eligible for rediscount at the Federal Reserve Bank until such time as it has a maturity of not more than three months, exclusive of days of grace.

# RESERVE REQUIREMENTS

EVERY member bank in the Federal Reserve System is required to keep on deposit at the Federal Reserve Bank of its district certain cash reserve balances which are designated in the paragraphs following. "Demand deposits," within the meaning of the act, comprise all deposits payable within 30 days; "time deposits" comprise all deposits payable after 30 days and all savings accounts and certificates of deposit subject to not less than 30 days' notice before payment, and all postal savings deposits.

1. *Reserve Requirements for Banks not in Reserve Cities*[1]—Not less than 7 per cent. of the aggregate amount of demand deposits and 3 per cent. of its time deposits.

2. *Reserve Requirements for Banks in Reserve Cities*—Not less than 10 per cent. of demand deposits and 3 per cent. of time deposits.

*Exception:*

If located in the outlying districts of a reserve city or in territory added to such a city by extension of its corporate charter, the bank may upon the affirmative vote of five members of the Federal Reserve Board, maintain the reserve balances specified in Paragraph 1 above.

3. *Reserve Requirements for Banks in Central Reserve Cities*—Not less than 13 per cent. of demand deposits and 3 per cent. of time deposits.

*Exception:*

If located in the outlying districts of a central reserve city or in territory added to such city by the extension of its corporate charter, the bank may, upon the affirmative vote of five members of the Federal Reserve Board, maintain the reserve balances specified in Paragraphs 1 or 2 above.

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[1] *Central Reserve Cities*—New York and Chicago.
*Reserve Cities*—Boston, Albany, Brooklyn and Bronx, Buffalo, Philadelphia, Pittsburgh, Baltimore, Washington, Richmond, Charleston, Atlanta, Savannah, Jacksonville, Birmingham, New Orleans, Dallas, El Paso, For Worth, Galveston, Houston, San Antonio, Waco, Little Rock, Louisville, Memphis, Nashville, Cincinnati, Cleveland, Columbus, Toledo, Indianapolis, Peoria, Detroit, Grand Rapids, Milwaukee, Minneapolis, St. Paul, Cedar Rapids, Des Moines, Dubuque, Sioux City, St. Louis, Kansas City, Mo., St. Joseph, Lincoln, Omaha, Kansas City, Kans., Topeka, Wichita, Denver, Pueblo, Muskogee, Oklahoma City, Tulsa, Seattle, Spokane, Tacoma, Portland, Los Angeles, Oakland, San Francisco, Ogden, Salt Lake City.

A member bank's balance at its Federal Reserve Bank may under certain conditions be checked against and withdrawn for the purpose of meeting existing liabilities. (See "Loans," Paragraph 6, Page 64.)

No bank that is a member of the Federal Reserve System may keep on deposit with any state bank or trust company which is not a member of the system, a sum exceeding 10 per cent. of its own paid capital and surplus. No member bank may act as the medium or agent of a non-member bank in applying for or receiving discounts from the Federal Reserve Bank, except by permission of the Federal Reserve Board.

# CHECK CLEARING AND COLLECTION

THE following is an abridged transcript of the Federal Reserve Board's Regulation J, Series of 1920.

Section 16 of the Federal Reserve Act authorizes the Federal Reserve Board to require each Federal Reserve Bank to exercise the function of a clearing house for its member banks, and section 13 of the Federal Reserve Act, as amended by the Act approved June 21, 1917, authorizes each Federal Reserve Bank to receive from any nonmember bank or trust company, solely for the purposes of exchange or of collection, deposits of current funds in lawful money, national bank notes, Federal Reserve notes, checks, and drafts payable upon presentation, or maturing notes and bills, provided such nonmember bank or trust company maintains with its Federal Reserve Bank a balance sufficient to offset the items in transit held for its account by the Federal Reserve Bank.

In pursuance of the authority vested in it under these provisions of law, the Federal Reserve Board has arranged to have each Federal Reserve Bank exercise the functions of a clearing house for member banks that desire to avail themselves of its privileges and for nonmember state banks and trust companies that maintain with the Federal Reserve Bank balances sufficient to qualify them to send items for exchange or for collection. Such nonmember State banks and trust companies will hereinafter be referred to in this regulation as nonmember clearing banks.

Each Federal Reserve Bank shall exercise the functions of a clearing house under the following general terms and conditions:

1—Each Federal Reserve Bank will receive at par from its member banks and from nonmember clearing banks in the district, checks,[1] drawn on all member and nonmember clearing banks and on all other nonmember banks which agree to remit at par through the Federal Reserve Bank of their district.

[1] A check is generally defined as a draft or order upon a bank or banking house, purporting to be drawn upon a deposit of funds, for the payment at all events of a certain sum of money to a certain person therein named, or to him or his order, or to bearer, and payable instantly on demand.

2—Each Federal Reserve Bank will receive at par from other Federal Reserve Banks, and from all member and nonmember clearing banks, regardless of their location, for the credit of their account with their respective Federal Reserve Banks, checks drawn upon all member and nonmember clearing banks of its district and upon all other nonmember banks of its district whose checks are collected at par by the Federal Reserve Banks.

3—Immediate credit entry upon receipt subject to final payment will be made for all such items upon the books of the Federal Reserve Bank at full face value, but the proceeds will not be counted as part of the minimum reserve nor become available to meet checks drawn until such time as may be specified in the appropriate time schedule referred to in subdivision 7.

4—Checks received by a Federal Reserve Bank on its member or nonmember clearing banks will be forwarded direct to such banks and will not be charged to their accounts, until sufficient time has elapsed within which to receive advice of payment, as shown by the appropriate time schedule referred to in subdivision 7.

5—Under this plan each Federal Reserve Bank will receive at par from its member and nonmember clearing banks checks on all member and nonmember clearing banks and on all other nonmember banks whose checks can be collected at par by any Federal Reserve Bank. Member and nonmember clearing banks will be required by the Federal Reserve Board to provide funds to cover at par all checks received from or for the account of their Federal Reserve Banks: Provided, however, That a member or nonmember clearing bank may ship currency or species from its own vaults at the expense of its Federal Reserve Bank to cover any deficiency which may arise because of and only in the case of inability to provide items to offset checks received from or for the account of its Federal Reserve Bank.[1]

6—Section 19 of the Federal Reserve Act provides that—

The required balance carried by a member bank with a Federal Reserve Bank may, under the regulations and subject to such penalties as may be prescribed by the Federal Reserve Board, be checked against and withdrawn by such member bank for the purpose of meeting existing liabilities: Provided, however, That no bank shall at any time make new loans or shall pay any dividends unless and until the total balance required by law is fully restored.

Items cannot be counted as part of the minimum reserve balance to be carried by a member bank with its Federal Reserve Bank until

[1] In accordance with instructions issued by the Federal Reserve Board on April 24, 1917, the various Federal Reserve Banks have issued circulars setting forth the conditions under which their respective member banks may draw drafts on their Reserve Bank accounts payable with or through any other Federal Reserve Bank.

such time as may be specified in the appropriate time schedule referred to in subdivision 7. Therefore, should a member bank draw against items before such time, the draft would be charged against its reserve balance if such balance were sufficient in amount to pay it; but any resulting impairment of reserve balances would be subject to all the penalties provided by the Act and by the Federal Reserve Board.

7—Each Federal Reserve Bank will determine by analysis the amounts of uncollected funds appearing on its books to the credit of each member bank. Such analysis will show the true status of the reserve held by the Federal Reserve Bank for each member bank and will enable it to apply the penalty for impairment of reserve. Each Federal Reserve Bank will publish time schedules showing the time at which any item sent to it will be counted as reserve and become available to meet any checks drawn.

8—In handling items for member and nonmember clearing banks, a Federal Reserve Bank will act as agent only. The board will require that each member and nonmember clearing bank authorize its Federal Reserve Bank to send checks for collection to bank on which checks are drawn, and, except for negligence, such Federal Reserve Bank will assume no liability. Any further requirements that the Board may deem necessary will be set forth by the Federal Reserve Banks in their letters of instruction to their member and nonmember clearing banks. Each Federal Reserve Bank will also promulgate rules and regulations governing the details of its operations as a clearing house, such rules and regulations to be binding upon all member and nonmember banks which are clearing through the Federal Reserve Bank.

# INTERLOCKING BANK DIRECTORATES UNDER THE CLAYTON ACT

(Federal Reserve Board Regulation L, Series of 1920)

Definitions applicable to this regulation:

*Member bank*—Any national bank and any state bank or trust company which is a member of the Federal Reserve System.

*National bank*—National banking associations, and all banks and trust companies doing business in the District of Columbia.

*Resources*—An amount equal to the sum of the deposits, capital, surplus, and undivided profits.

*State bank*—Any bank, banking association, or trust company incorporated under state law.

*Private banker*—Any unincorporated individual engaging in one or more phases of the banking business and to any member of an unincorporated firm engaging in such business.

*Edge Act*—Section 25 (a) of the Federal Reserve Act, as amended December 24, 1919.

*Edge Corporation*—Any corporation organized under the provisions of the Edge Act.

*City of over 200,000 inhabitants*—any city, incorporated town, or village of more than 200,000 inhabitants, as shown by the last preceding decennial census of the United States. Any bank located anywhere within the corporate limits of such city is located in a city of over 200,000 inhabitants within the meaning of the Clayton Act, even though it is located in a suburb or an outlying district at some distance from the principal part of the city.

## *Prohibitions of Clayton Act*

The Clayton Antitrust Act lays down three specific conditions in which directors of one bank are forbidden to be directors of another bank, viz.:

1—No person who is a director or other officer or employee of a national bank or Edge Corporation having resources aggregating more than $5,000,000 can legally serve at the same time as director, officer, or employee of any other national bank or Edge Corporation, regardless of its location.

2—No person who is a director in a state bank or trust company having resources aggregating more than $5,000,000, or who is a private banker

having resources aggregating more than $5,000,000, can legally serve at the same time as director of any national bank or Edge Corporation, regardless of its location.

3—No person can legally be a director, officer, or employee of a national bank or Edge Corporation located in a city of more than 200,000 inhabitants who is at the same time a private banker in the same city or a director, officer, or employee of any other bank (state or national) located in the same city, regardless of the size of such bank.

The eligibility of a director, officer, or employee under the foregoing provisions is determined by the average amount of deposits, capital, surplus, and undivided profits as shown in the official statements of such bank, banking association, or trust company filed as provided by law during the fiscal year next preceding the date set for the annual election of directors, and when a director, officer, or employee has been elected or selected in accordance with the provisions of the Clayton Act it is lawful for him to continue as such for one year thereafter under said election or employment.

When any person elected or chosen as a director, officer, or employee of any bank is eligible at the time of his election or selection to act for such bank in such capacity his eligibility to act in such capacity is not affected by reason of any change in the affairs of such bank from whatsoever cause, until the expiration of one year from the date of his election or employment.

*Exceptions:*

1—The provisions of the Clayton Act do not apply to mutual savings banks not having a capital stock represented by shares.

2—Do not prohibit a person from being at the same time a director, officer, or employee of a national bank or Edge Corporation and not more than one other national bank, Edge Corporation, State bank, or trust company, where the entire capital stock of one is owned by the stockholders of the other.

3—Do not prohibit a person from being at the same time a class A director of a Federal Reserve Bank and also an officer or director, or both an officer and a director, in one member bank.

4—Do not prohibit a person who is serving as director of a national bank, or Edge Corporation, even though it has resources aggregating over $5,000,000, from serving at the same time as director of any number of state banks and trust companies, provided such

state institutions are not located in the same city of over 200,000 inhabitants as the national bank or Edge Corporation, and do not have resources aggregating in the case of any one bank more than $5,000,000.

5—Do not prohibit a person from serving at the same time as director, officer, or employee of any number of national banks, provided no two of them are located in the same city of over 200,000 inhabitants and no one of them has resources aggregating over $5,000,000.

6—Do not prohibit a person who is not a director, officer, or employee of any national bank or Edge Corporation from serving at the same time as officer, director, or employee of any number of state banks or trust companies, regardless of their locations and resources.

7—Do not prohibit a person who is an officer or employee but not a director of a state bank from serving as director, officer, or employee of a national bank, or Edge Corporation, even though such state bank has resources aggregating over $5,000,000, provided both banks are not located in the same city of over 200,000 inhabitants.

8—Do not prohibit a person who is an officer or employee but not a director of a national bank or Edge Corporation from serving at the same time as director, officer, or employee of a State bank, even though such State bank has resources aggregating over $5,000,000, provided both banks are not located in the same city of over 200,000 inhabitants.

9—Do not apply to persons who have obtained the consent or approval of the Federal Reserve Board under the provisions of the Kern amendment, section 25 of the Federal Reserve Act or the Edge Act as hereinafter provided.

These exceptions are cumulative.

## *Permission of the Federal Reserve Board under Kern Amendment*

By the Kern amendment the Clayton Act now authorizes the Federal Reserve Board to permit any private banker or any officer, director, or employee of any member bank or class A director of a Federal Reserve Bank to serve as director, officer, or employee of not more than two other banks, banking associations, or trust companies coming within the prohibitions of the Clayton Act, provided such other banks are not in substantial competition with such private banker or member bank.

*Substantial competition*—If the institutions involved are not in substantial competition, the Board is authorized, in its discretion, to grant, withhold, or revoke such consent; but if they are in substantial competition, the Board has no discretion in the matter and must refuse such consent.

*When obtained*—Inasmuch as the Kern amendment excepts from the prohibitions of the Clayton Act only those "who shall first procure the consent of the Federal Reserve Board," it is a violation of the law to serve two or more institutions in the prohibited classes before such consent has been obtained. Such consent should be obtained, therefore, before becoming an officer, director, or employee of more than one bank in the prohibited classes. Such consent may be procured before the person applying therefor has been elected as a class A director of a Federal Reserve Bank or as a director of any member bank.

*Approval or disapproval*—As soon as an application is acted upon by the Board, the applicant will be advised of the action taken.

If the Board approves the application, a formal certificate of permission to serve on the banks involved will be issued to the applicant.

*Rehearing*—If the Board decides that the banks are in substantial competition and that it cannot approve the application, it will, upon petition of the applicant, reconsider its decision and afford him every opportunity to present any additional facts or arguments bearing on the subject.

*Effect of permits*—Permission once granted is continuing until revoked, and need not be renewed.

*Revocation*—All permits, however, are subject to revocation at any time in the discretion of the Federal Reserve Board. The issuance of a permit to any person shall have the effect of revoking any or all permits which may have been issued previously to that person.

## *Permits under Section 25 of the Federal Reserve Act*

With the approval of the Federal Reserve Board, any director, officer, or employee of a member bank which has invested in the

stock of any corporation principally engaged in international or foreign banking or financial operations or banking in a dependency or insular possession of the United States, under the provisions of section 25 of the Federal Reserve Act, may serve as director, officer, or employee of any such foreign bank or financial corporation.

*Applications for approval*—The approval of the Federal Reserve Board for such interlocking directorates may be obtained through an informal application in the form of a letter addressed to the Federal Reserve Board either by the officer, director, or employee involved, or in his behalf by one of the banks which he is serving. Such application should be sent directly to the Federal Reserve Board.

## *Permits to Serve Edge Corporations*

WITH the approval of the Federal Reserve Board—

1—Any officer, director, or employee of any member bank may serve at the same time as director, officer, or employee of any Edge Corporation in whose capital stock the member bank shall have invested.

2—Any officer, director, or employee of any Edge Corporation may serve at the same time as officer, director, or employee of any other corporation in whose capital stock such Edge Corporation shall have invested under the provision of the Edge Act.

*Applications for approval*—Such approval may be obtained through an informal application in the form of a letter addressed to the Federal Reserve Board either by the director, officer, or employee involved, or in his behalf by one of the banks or corporations involved. Such applications should be sent directly to the Federal Reserve Board.

# BANKS AS INSURANCE AGENTS

BY an amendment to the Federal Reserve Act national banks located in any place the population of which does not exceed 5,000 (last decennial census) may act as the agents for fire insurance, life insurance, or other insurance companies, under the following provisions:

(a) The insurance company for which the bank acts must be authorized by state authorities to do business in the state in which the bank is located.

(b) The bank's activities as insurance agent are restricted to the soliciting and selling of insurance and collection of premiums.

(c) The bank may receive such lawful fees as are agreed upon between itself and the insurance company.

(d) The bank must not assume or guarantee the payment of any payment on insurance policies.

(e) The bank must not guarantee the truth of any statement made by the person who is insured.

In pursuance of the powers conferred upon him by the law the Comptroller has prescribed a set of regulations for national banks which act as insurance agents, which are furnished upon request. No national bank can act as an insurance agent if the laws of the state in which it is located will not permit any bank to so act, nor unless it conducts its business under the rules that are prescribed by the Comptroller.

# BANKS AS AGENTS AND BROKERS FOR REAL ESTATE LOANS

UNDER the same provision of the Federal Reserve Act which makes it legal for certain national banks to act as insurance agents, a national bank located in any place the population of which does not exceed 5,000 (last decennial census) may also act as broker or agent for others in making or procuring loans on real estate, under the following provisions:

(a) The real estate by which the loan negotiated is secured must be located within 100 miles of the place in which the bank is located.

(b) The bank shall in no case guarantee either the principal or interest of such loan.

(c) The bank may receive for such services a reasonable fee or commission.

As is the case when a national bank acts as an insurance agent the powers conferred by the law may be exercised only under such regulations as are prescribed by the Comptroller of the Currency. Copies of these regulations are furnished by the Comptroller.

## POWER TO HOLD REAL PROPERTY

THE Federal law prescribed that a national bank may "purchase, hold, and convey" real estate for the following purposes only:

1—Such as shall be necessary for its immediate accommodation in the transaction of its business.

2—Such as shall be mortgaged to it in good faith by way of security for debts previously contracted.

3—Such as shall be conveyed to it in satisfaction of debts previously contracted in the course of its dealing.

4—Such as it shall purchase at sales under judgments, decrees, or mortgages held by the bank, or shall purchase to secure debts due to it.

It is, however, unlawful for a national bank to hold for a longer period than five years any real estate under mortgage or title and possession of any real estate purchased to secure debt.

## REPORT OF CONDITION

NOT less than three times each year every national bank is required to make a report to the Comptroller, according to the form prescribed by him, verified by the oath of the bank's president or cashier and attested to by the signatures of at least three of the bank's directors other than the verifying officers. Forms for these reports are furnished by the Comptroller usually in advance of the date upon which formal notice of the call reaches the bank. The information asked for must be transmitted to the Comptroller within five days after the receipt of the call at the bank, and in the same form in which it is furnished to the Comptroller the information must be inserted in a newspaper published in the place where the bank is located.

The Comptroller has power to call for special reports from any particular bank whenever in his opinion it is necessary to obtain such information.

# TRUST DEPARTMENT

UNDER the Federal Reserve Act it is possible for a national bank to maintain and operate its own trust department, exercising through this department all of the fiduciary powers granted to state banks, trust companies, etc., by the laws of the state in which the national bank is located.

Permission to establish such a department is granted, not by the Comptroller's office, but by the Federal Reserve Board. Proper forms for the applications are furnished by the Board and the application, after it is executed by the president or cashier of the bank, should be mailed to the Chairman of the Board of Directors of the Federal Reserve Bank in the particular district, who will transmit it to Washington.

National banks which are permitted by the Federal Reserve Board to function in fiduciary capacities are required to establish a separate trust department under the management of an officer or officers, and to abide by certain other special rules laid down in the Federal Reserve Act and by the Federal Reserve Board.

# BRANCHES

1. *Domestic Branches*—The National Bank Act, as it now stands, does not give national banks the privilege of establishing domestic branch banks. It does, however, contain the following provision permitting state banks which enter the national system to retain branches already established:

> It shall be lawful for any bank or banking association, organized under state laws and having branches, the capital being joint and assigned to and used by the mother bank and branches in definite proportions, to become a national banking association in conformity with existing laws and to retain and keep in operation its branches, or such one or more of them as it may elect to retain.

2. *Foreign Branches*—Under the Federal Reserve Act, however, any national bank having a capital and surplus of not less than $1,000,000 may, with the permission of the Federal Reserve Board, and upon such conditions as may be prescribed by the Board, exercise either or both of the following powers:

> 1—Establish branches in foreign countries for the furtherance of the foreign commerce of the United States, and to act if required to do so as fiscal agents of the United States.
>
> 2—To invest an amount not exceeding in the aggregate 10 per cent. of its paid-in capital stock and surplus in the stock of one or more banks or corporations chartered or incorporated under the laws of the United States or of any state and principally engaged in international or foreign banking, either directly or through agencies, ownership, or control of local institutions in foreign countries.

Every national bank either operating foreign branches or owning stock in a bank or corporation engaged in international banking must furnish to the Comptroller of the Currency, upon demand, information concerning the condition of such branches, banks or corporations.

Before any national bank can purchase stock in such a corporation as that described above, the corporation itself must enter into an agreement with the Federal Reserve Board to restrict its opera-

tions or conduct its business in the manner in which the Board may prescribe.

The accounts of each foreign branch of any national bank must be conducted separately from the accounts of the bank's other branches and its home office, and the bank must at the end of each fiscal period transfer to its general ledger the profit or loss accrued at each branch as a separate item.

# FEDERAL RESERVE ACT

(*Approved Dec. 23, 1913*)

With amendments approved up to January 1, 1921

**An Act To provide for the establishment of Federal reserve banks, to furnish an elastic currency, to afford means of rediscounting commercial paper, to establish a more effective supervision of banking in the United States, and for other purposes.**

*Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled*, That the short title of this Act shall be the "Federal Reserve Act."

Wherever the word "bank" is used in this Act, the word shall be held to include State bank, banking association, and trust company, except where national banks or Federal reserve banks are specifically referred to.

The terms "national bank" and "national banking association" used in this Act shall be held to be synonymous and interchangeable. The term "member bank" shall be held to mean any national bank, State bank, or bank or trust company which has become a member of one of the reserve banks created by this Act. The term "board" shall be held to mean Federal Reserve Board; the term "district" shall be held to mean Federal reserve district; the term "reserve bank" shall be held to mean Federal reserve bank.

## FEDERAL RESERVE DISTRICTS

**Sec. 2.** As soon as practicable, the Secretary of the Treasury, the Secretary of Agriculture and the Comptroller of the Currency, acting as "The Reserve Bank Organization Committee," shall designate not less than eight nor more than twelve cities to be known as Federal reserve cities, and shall divide the continental United States, excluding Alaska, into districts, each district to contain only one of such Federal reserve cities. The determination of said organization committee shall not be subject to review except by the Federal Reserve Board when organized: *Provided*, That the districts shall be apportioned with due regard to the convenience and customary course of business and shall not necessarily be coterminous with any State or States. The districts thus created may be readjusted and new districts may from time to time be created by the Federal Reserve Board, not to exceed twelve in all. Such districts shall be known as Federal reserve districts and may be designated by number. A majority of the organization committee shall constitute a quorum with authority to act.

**2a.** Said organization committee shall be authorized to employ counsel and expert aid, to take testimony, to send for persons and papers, to administer oaths, and to make such investigation as may be deemed necessary by the said committee in determining the reserve districts and in designating the cities within such districts where such Federal reserve banks

shall be severally located. The said committee shall supervise the organization in each of the cities designated of a Federal reserve bank, which shall include in its title the name of the city in which it is situated, as "Federal Reserve Bank of Chicago."

**2b.** Under regulations to be prescribed by the organization committee, every national banking association in the United States is hereby required, and every eligible bank in the United States and every trust company within the District of Columbia, is hereby authorized to signify in writing, within sixty days after the passage of this Act, its acceptance of the terms and provisions hereof.

**2c.** When the organization committee shall have designated the cities in which Federal reserve banks are to be organized, and fixed the geographical limits of the Federal reserve districts, every national banking association within that district shall be required within thirty days after notice from the organization committee, to subscribe to the capital stock of such Federal reserve bank in a sum equal to six per centum of the paid-up capital stock and surplus of such bank, one-sixth of the subscription to be payable on call of the organization committee or of the Federal Reserve Board, one-sixth within three months and one-sixth within six months thereafter, and the remainder of the subscription, or any part thereof, shall be subject to call when deemed necessary by the Federal Reserve Board, said payments to be in gold or gold certificates.

**2d.** The shareholders of every Federal reserve bank shall be held individually responsible, equally and ratably, and not one for another, for all contracts, debts, and engagements of such bank to the extent of the amount of their subscriptions to such stock at the par value thereof in addition to the amount subscribed, whether such subscriptions have been paid up in whole or in part, under the provisions of this Act.

**2e.** Any national bank failing to signify its acceptance of the terms of this Act within the sixty days aforesaid, shall cease to act as a reserve agent, upon thirty days' notice, to be given within the discretion of the said organization committee or of the Federal Reserve Board.

**2f.** Should any national banking association in the United States now organized fail within one year after the passage of this Act to become a member bank or fail to comply with any of the provisions of this Act applicable thereto, all of the rights, privileges, and franchises of such association granted to it under the national-bank Act, or under the provisions of this Act, shall be thereby forfeited. Any noncompliance with or violation of this Act shall, however, be determined and adjudged by any court of the United States of competent jurisdiction in a suit brought for that purpose in the district or territory in which such bank is located, under direction of the Federal Reserve Board, by the Comptroller of the Currency in his own name before the association shall be declared dissolved. In cases of such noncompliance or violation, other than the failure to become a member bank

under the provisions of this Act, every director who participated in or assented to the same shall be held liable in his personal or individual capacity for all damages which said bank, its shareholders, or any other person shall have sustained in consequence of such violation.

Such dissolution shall not take away or impair any remedy against such corporation, its stockholders or officers, for any liability or penalty which shall have been previously incurred.

2g. Should the subscriptions by banks to the stock of said Federal reserve banks or any one or more of them be, in the judgment of the organization committee, insufficient to provide the amount of capital required therefor, then and in that event the said organization committee may, under conditions and regulations to be prescribed by it, offer to public subscription at par such an amount of stock in said Federal reserve banks, or any one or more of them, as said committee shall determine, subject to the same conditions as to payment and stock liability as provided for member banks.

2h. No individual, copartnership, or corporation other than a member bank of its district shall be permitted to subscribe for or to hold at any time more than $25,000 par value of stock in any Federal reserve bank. Such stock shall be known as public stock and may be transferred on the books of the Federal reserve bank by the chairman of the board of directors of such bank.

2i. Should the total subscriptions by banks and the public to the stock of said Federal reserve banks, or any one or more of them, be, in the judgment of the organization committee, insufficient to provide the amount of capital required therefor, then and in that event the said organization committee shall allot to the United States such an amount of said stock as said committee shall determine. Said United States stock shall be paid for at par out of any money in the Treasury not otherwise appropriated, and shall be held by the Secretary of the Treasury and disposed of for the benefit of the United States in such manner, at such times, and at such price, not less than par, as the Secretary of the Treasury shall determine.

2j. Stock not held by member banks shall not be entitled to voting power.

2k. The Federal Reserve Board is hereby empowered to adopt and promulgate rules and regulations governing the transfers of said stock.

2l. No Federal reserve bank shall commence business with a subscribed capital less than $4,000,000.

2m. The organization of reserve districts and Federal reserve cities shall not be construed as changing the present status of reserve cities and central reserve cities, except in so far as this Act changes the amount of reserves that may be carried with approved reserve agents located therein.

2n. The organization committee shall have power to appoint such assistants and incur such expenses in carrying out the provisions of this Act as it shall

deem necessary, and such expenses shall be payable by the Treasurer of the United States upon voucher approved by the Secretary of the Treasury, and the sum of $100,000, or so much thereof as may be necessary, is hereby appropriated, out of any moneys in the Treasury not otherwise appropriated, for the payment of such expenses.

## BRANCH OFFICES

**Sec. 3.** The Federal Reserve Board may permit or require any Federal reserve bank to establish branch banks within the Federal reserve district in which it is located or within the district of any Federal reserve bank which may have been suspended. Such branches, subject to such rules and regulations as the Federal Reserve Board may prescribe, shall be operated under the supervision of a board of directors to consist of not more than seven nor less than three directors, of whom a majority of one shall be appointed by the Federal reserve bank of the district, and the remaining directors by the Federal Reserve Board. Directors of branch banks shall hold office during the pleasure of the Federal Reserve Board.

## FEDERAL RESERVE BANKS

**Sec. 4.** When the organization committee shall have established Federal reserve districts as provided in section two of this Act, a certificate shall be filed with the Comptroller of the Currency showing the geographical limits of such districts and the Federal reserve city designated in each of such districts. The Comptroller of the Currency shall thereupon cause to be forwarded to each national bank located in each district, and to such other banks declared to be eligible by the organization committee which may apply therefor, an application blank in form to be approved by the organization committee, which blank shall contain a resolution to be adopted by the board of directors of each bank executing such application, authorizing a subscription to the capital stock of the Federal reserve bank organizing in that district in accordance with the provisions of this Act.

**4a.** When the minimum amount of capital stock prescribed by this Act for the organization of any Federal reserve bank shall have been subscribed and allotted, the organization committee shall designate any five banks of those whose applications have been received, to execute a certificate of organization, and thereupon the banks so designated shall, under their seals, make an organization certificate which shall specifically state the name of such Federal reserve bank, the territorial extent of the district over which the operations of such Federal reserve bank are to be carried on, the city and State in which said bank is to be located, the amount of capital stock and the number of shares into which the same is divided, the name and place of doing business of each bank executing such certificate, and of all banks which have subscribed to the capital stock of such Federal reserve bank and the number of shares subscribed by each, and the fact that the certificate is made to enable those banks executing same, and all banks which have subscribed or may

thereafter subscribe to the capital stock of such Federal reserve bank, to avail themselves of the advantages of this Act.

The said organization certificate shall be acknowledged before a judge of some court of record or notary public; and shall be, together with the acknowledgment thereof, authenticated by the seal of such court, or notary, transmitted to the Comptroller of the Currency, who shall file, record and carefully preserve the same in his office.

4b. Upon the filing of such certificate with the Comptroller of the Currency as aforesaid, the said Federal reserve bank shall become a body corporate, and as such, and in the name designated in such organization certificate, shall have power—

First. To adopt and use a corporate seal.

Second. To have succession for a period of twenty years from its organization unless it is sooner dissolved by an Act of Congress, or unless its franchise becomes forfeited by some violation of law.

Third. To make contracts.

Fourth. To sue and be sued, complain and defend, in any court of law or equity.

Fifth. To appoint by its board of directors such officers and employees as are not otherwise provided for in this Act, to define their duties, require bonds of them and fix the penalty thereof, and to dismiss at pleasure such officers or employees.

Sixth. To prescribe by its board of directors, by-laws not inconsistent with law, regulating the manner in which its general business may be conducted, and the privileges granted to it by law may be exercised and enjoyed.

Seventh. To exercise by its board of directors, or duly authorized officers or agents, all powers specifically granted by the provisions of this Act and such incidental powers as shall be necessary to carry on the business of banking within the limitations prescribed by this Act.

Eighth.[1] Upon deposit with the Treasurer of the United States of any bonds of the United States in the manner provided by existing law relating to national banks, to receive from the Comptroller of the Currency circulating notes in blank, registered and countersigned as provided by law, equal in amount to the par value of the bonds so deposited, such notes to be issued under the same conditions and provisions of law as relate to the issue of circulating notes of national banks secured by bonds of the United States bearing the circulating privilege, except that the issue of such notes shall not be limited to the capital stock of such Federal reserve bank.

But no Federal reserve bank shall transact any business except such as is incidental and necessarily preliminary to its organization until it has been authorized by the Comptroller of the Currency to commence business under the provisions of this Act.

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[1] See section 18. Also sec. 5 of act approved Apr. 23, 1918, authorizing issuance of Federal Reserve Bank notes in any denominations (including $1 and $2) against security of United States certificates of indebtedness.

**4c.** Every Federal reserve bank shall be conducted under the supervision and control of a board of directors.

The board of directors shall perform the duties usually appertaining to the office of directors of banking associations and all such duties as are prescribed by law.

Said board shall administer the affairs of said bank fairly and impartially and without discrimination in favor of or against any member bank or banks and shall, subject to the provisions of law and the orders of the Federal Reserve Board, extend to each member bank such discounts, advancements and accommodations as may be safely and reasonably made with due regard for the claims and demands of other member banks.

**4d.** Such board of directors shall be selected as hereinafter specified and shall consist of nine members, holding office for three years, and divided into three classes, designated as classes A, B, and C.

Class A shall consist of three members, who shall be chosen by and be representative of the stock-holding banks.

Class B shall consist of three members, who at the time of their election shall be actively engaged in their district in commerce, agriculture or some other industrial pursuit.

Class C shall consist of three members who shall be designated by the Federal Reserve Board. When the necessary subscriptions to the capital stock have been obtained for the organization of any Federal reserve bank, the Federal Reserve Board shall appoint the class C directors and shall designate one of such directors as chairman of the board to be selected. Pending the designation of such chairman, the organization committee shall exercise the powers and duties appertaining to the office of chairman in the organization of such Federal reserve bank.

No Senator or Representative in Congress shall be a member of the Federal Reserve Board or an officer or a director of a Federal reserve bank.

No director of class B shall be an officer, director, or employee of any bank.

No director of class C shall be an officer, director, employee, or stockholder of any bank.

**4e.** Directors of class A and class B shall be chosen in the following manner:

The Federal Reserve Board shall classify the member banks of the district into three general groups or divisions, designating each group by number. Each group shall consist as nearly as may be of banks of similar capitalization. Each member bank shall be permitted to nominate to the chairman of the board of directors of the Federal reserve bank of the district one candidate for director of class A and one candidate for director of class B. The candidates so nominated shall be listed by the chairman, indicating by whom nominated, and a copy of said list shall, within fifteen days after its completion, be furnished by the chairman to each member bank. Each member bank by a resolution of the board or by an amendment to its by-laws shall authorize

its president, cashier, or some other officer to cast the vote of the member bank in the elections of class A and class B directors.

Within fifteen days after receipt of the list of candidates the duly authorized officer of a member bank shall certify to the chairman his first, second, and other choices for director of class A and class B, respectively, upon a preferential ballot upon a form furnished by the chairman of the board of directors of the Federal reserve bank of the district. Each such officer shall make a cross opposite the name of the first, second, and other choices for a director of class A and for a director of class B, but shall not vote more than one choice for any one candidate. No officer or director of a member bank shall be eligible to serve as a class A director unless nominated and elected by banks which are members of the same group as the member bank of which he is an officer or director.

Any person who is an officer or director of more than one member bank shall not be eligible for nomination as a class A director except by banks in the same group as the bank having the largest aggregate resources of any of those of which such person is an officer or director.

Any candidate having a majority of all votes cast in the column of first choice shall be declared elected. If no candidate have a majority of all the votes in the first column, then there shall be added together the votes cast by the electors for such candidates in the second column and the votes cast for the several candidates in the first column. If any candidate then have a majority of the electors voting, by adding together the first and second choices, he shall be declared elected. If no candidate have a majority of electors voting when the first and second choices shall have been added, then the votes cast in the third column for other choices shall be added together in like manner, and the candidate then having the highest number of votes shall be declared elected. An immediate report of election shall be declared.

**4f.** Class C directors shall be appointed by the Federal Reserve Board. They shall have been for at least two years residents of the district for which they are appointed, one of whom shall be designated by said board as chairman of the board of directors of the Federal reserve bank and as "Federal reserve agent." He shall be a person of tested banking experience, and in addition to his duties as chairman of the board of directors of the Federal reserve bank he shall be required to maintain, under regulations to be established by the Federal Reserve Board, a local office of said board on the premises of the Federal reserve bank. He shall make regular reports to the Federal Reserve Board and shall act as its official representative for the performance of the functions conferred upon it by this act. He shall receive an annual compensation to be fixed by the Federal Reserve Board and paid monthly by the Federal reserve bank to which he is designated. One of the directors of class C shall be appointed by the Federal Reserve Board as deputy chairman to exercise the powers of the chairman of the board when necessary. In case of the absence of the chairman and deputy chairman, the third-class C director shall preside at meetings of the board.

Subject to the approval of the Federal Reserve Board the Federal reserve agent shall appoint one or more assistants. Such assistants, who shall be persons of tested banking experience, shall assist the Federal reserve agent in the performance of his duties and shall also have power to act in his name and stead during his absence or disability. The Federal Reserve Board shall require such bonds of the assistant Federal reserve agents as it may deem necessary for the protection of the United States. Assistants to the Federal reserve agent shall receive an annual compensation, to be fixed and paid in the same manner as that of the Federal reserve agent.

4g. Directors of Federal reserve banks shall receive, in addition to any compensation otherwise provided, a reasonable allowance for necessary expenses in attending meetings of their respective boards, which amount shall be paid by the respective Federal reserve banks. Any compensation that may be provided by boards of directors of Federal reserve banks for directors, officers or employees shall be subject to the approval of the Federal Reserve Board.

4h. The Reserve Bank Organization Committee may, in organizing Federal reserve banks, call such meetings of bank directors in the several districts as may be necessary to carry out the purposes of this Act, and may exercise the functions herein conferred upon the chairman of the board of directors of each Federal reserve bank pending the complete organization of such bank.

4i. At the first meeting of the full board of directors of each Federal reserve bank, it shall be the duty of the directors of classes A, B, and C, respectively, to designate one of the members of each class whose term of office shall expire in one year from the first of January nearest to date of such meeting, one whose term of office shall expire at the end of two years from said date, and one whose term of office shall expire at the end of three years from said date. Thereafter every director of a Federal reserve bank chosen as hereinbefore provided shall hold office for a term of three years. Vacancies that may occur in the several classes of directors of Federal reserve banks may be filled in the manner provided for the original selection of such directors, such appointees to hold office for the unexpired terms of their predecessors.

## STOCK ISSUES; INCREASE AND DECREASE OF CAPITAL

**Sec. 5.** The capital stock of each Federal reserve bank shall be divided into shares of $100 each. The outstanding capital stock shall be increased from time to time as member banks increase their capital stock and surplus or as additional banks become members, and may be decreased as member banks reduce their capital stock or surplus or cease to be members.

5a. Shares of the capital stock of Federal reserve banks owned by member banks shall not be transferred or hypothecated.

5b. When a member bank increases its capital stock or surplus, it shall thereupon subscribe for an additional amount of capital stock of the Federal

reserve bank of its district equal to six per centum of the said increase, one-half of said subscription to be paid in the manner hereinbefore provided for original subscription, and one-half subject to call of the Federal Reserve Board.

**5c.** A bank applying for stock in a Federal reserve bank at any time after the organization thereof must subscribe for an amount of the capital stock of the Federal reserve bank equal to six per centum of the paid-up capital stock and surplus of said applicant bank, paying therefor its par value plus one-half of one per centum a month from the period of the last dividend.

**5d.** When the capital stock of any Federal reserve bank shall have been increased either on account of the increase of capital stock of member banks or on account of the increase in the number of member banks, the board of directors shall cause to be executed a certificate to the Comptroller of the Currency showing the increase in capital stock, the amount paid in, and by whom paid.

**5e.** When a member bank reduces its capital stock it shall surrender a proportionate amount of its holdings in the capital of said Federal reserve bank, and when a member bank voluntarily liquidates it shall surrender all of its holdings of the capital stock of said Federal reserve bank and be released from its stock subscription not previously called. In either case the shares surrendered shall be cancelled and the member bank shall receive in payment therefor, under regulations to be prescribed by the Federal Reserve Board, a sum equal to its cash-paid subscriptions on the shares surrendered and one-half of one per centum a month from the period of the last dividend, not to exceed the book value thereof, less any liability of such member bank to the Federal reserve bank.

## INSOLVENCY OF MEMBER BANK

**Sec. 6.** If any member bank shall be declared insolvent and a receiver appointed therefor, the stock held by it in said Federal reserve bank shall be cancelled, without impairment of its liability, and all cash-paid subscriptions on said stock, with one-half of one per centum per month from the period of last dividend, not to exceed the book value thereof, shall be first applied to all debts of the insolvent member bank to the Federal reserve bank, and the balance, if any, shall be paid to the receiver of the insolvent bank. Whenever the capital stock of a Federal reserve bank is reduced, either on account of a reduction in capital stock of any member bank or of the liquidation or insolvency of such bank, the board of directors shall cause to be executed a certificate to the Comptroller of the Currency showing such reduction of capital stock and the amount repaid to such bank.

## DIVISION OF EARNINGS

**Sec. 7.** After all necessary expenses of a Federal reserve bank have been paid or provided for, the stockholders shall be entitled to receive an annual dividend of six per centum on the paid-in capital stock, which dividend shall

be cumulative. After the aforesaid dividend claims have been fully met, the net earnings shall be paid to the United States as a franchise tax except that the whole of such net earnings, including those for the year ending December thirty-first, nineteen hundred and eighteen, shall be paid into a surplus fund until it shall amount to one hundred per centum of the subscribed capital stock of such bank, and that thereafter ten per centum of such net earnings shall be paid into the surplus.

The net earnings derived by the United States from Federal reserve banks shall, in the discretion of the Secretary, be used to supplement the gold reserve held against outstanding United States notes, or shall be applied to the reduction of the outstanding bonded indebtedness of the United States under regulations to be prescribed by the Secretary of the Treasury. Should a Federal reserve bank be dissolved or go into liquidation, any surplus remaining, after the payment of all debts, dividend requirements as hereinbefore provided, and the par value of the stock, shall be paid to and become the property of the United States and shall be similarly applied.

**7a.** Federal reserve banks, including the capital stock and surplus therein, and the income derived therefrom shall be exempt from Federal, State, and local taxation, except taxes upon real estate.

## CONVERSION OF STATE BANKS INTO NATIONAL BANKS

**Sec. 8.** Section fifty-one hundred and fifty-four, United States Revised Statutes, is hereby amended to read as follows:

Any bank incorporated by special law of any State or of the United States or organized under the general laws of any State or of the United States and having an unimpaired capital sufficient to entitle it to become a national banking association under the provisions of the existing laws may, by the vote of the shareholders owning not less than fifty-one per centum of the capital stock of such bank or banking association, with the approval of the Comptroller of the Currency be converted into a national banking association, with any name approved by the Comptroller of the Currency:

*Provided, however,* That said conversion shall not be in contravention of the State law. In such case the articles of association and organization certificate may be executed by a majority of the directors of the bank or banking institution, and the certificate shall declare that the owners of fifty-one per centum of the capital stock have authorized the directors to make such certificate and to change or convert the bank or banking institution into a national association. A majority of the directors, after executing the articles of association and the organization certificate, shall have power to execute all other papers and to do whatever may be required to make its organization perfect and complete as a national association. The shares of any such bank may continue to be for the same amount each as they were before the conversion, and the directors may continue to be directors of the association until others are elected or appointed in accordance with the provisions of the statutes of the United States. When the Comptroller has given to such

bank or banking association a certificate that the provisions of this Act have been complied with, such bank or banking association, and all its stockholders, officers, and employees, shall have the same powers and privileges, and shall be subject to the same duties, liabilities, and regulations, in all respects, as shall have been prescribed by the Federal Reserve Act and by the national banking Act for associations originally organized as national banking associations.

## STATE BANKS AS MEMBERS

**Sec. 9.** Any bank incorporated by special law of any State, or organized under the general laws of any State or of the United States, desiring to become a member of the Federal Reserve System, may make application to the Federal Reserve Board, under such rules and regulations as it may prescribe, for the right to subscribe to the stock of the Federal reserve bank organized within the district in which the applying bank is located. Such application shall be for the same amount of stock that the applying bank would be required to subscribe to as a national bank. The Federal Reserve Board, subject to such conditions as it may prescribe, may permit the applying bank to become a stockholder of such Federal reserve bank.

**9a.** In acting upon such applications the Federal Reserve Board shall consider the financial condition of the applying bank, the general character of its management, and whether or not the corporate powers exercised are consistent with the purposes of this act.

Whenever the Federal Reserve Board shall permit the applying bank to become a stockholder in the Federal reserve bank of the district its stock subscription shall be payable on call of the Federal Reserve Board, and stock issued to it shall be held subject to the provisions of this act.

**9b.** All banks admitted to membership under authority of this section shall be required to comply with the reserve and capital requirements of this act and to conform to those provisions of law imposed on national banks which prohibit such banks from lending on or purchasing their own stock, which relate to the withdrawal or impairment of their capital stock, and which relate to the payment of unearned dividends.

**9c.** Such banks and the officers, agents, and employees thereof shall also be subject to the provisions of and to the penalties prescribed by section fifty-two hundred and nine of the Revised Statutes, and shall be required to make reports of condition and of the payment of dividends to the Federal reserve bank of which they become a member. Not less than three of such reports shall be made annually on call of the Federal reserve bank on dates to be fixed by the Federal Reserve Board. Failure to make such reports within ten days after the date they are called for shall subject the offending bank to a penalty of $100 a day for each day that it fails to transmit such report; such penalty to be collected by the Federal reserve bank by suit or otherwise.

As a condition of membership such banks shall likewise be subject to examinations made by direction of the Federal Reserve Board or of the

Federal reserve bank by examiners selected or approved by the Federal Reserve Board.

Whenever the directors of the Federal reserve bank shall approve the examinations made by the State authorities, such examinations and the reports thereof may be accepted in lieu of examinations made by examiners selected or approved by the Federal Reserve Board: *Provided, however,* That when it deems it necessary the board may order special examinations by examiners of its own selection and shall in all cases approve the form of the report. The expenses of all examinations, other than those made by State authorities, shall be assessed against and paid by the banks examined.

**9d.** If at any time it shall appear to the Federal Reserve Board that a member bank has failed to comply with the provisions of this section or the regulations of the Federal Reserve Board made pursuant thereto, it shall be within the power of the board after hearing to require such bank to surrender its stock in the Federal reserve bank and to forfeit all rights and privileges of membership. The Federal Reserve Board may restore membership upon due proof of compliance with the conditions imposed by this section.

**9e.** Any State bank or trust company desiring to withdraw from membership in a Federal reserve bank may do so, after six months' written notice shall have been filed with the Federal Reserve Board, upon the surrender and cancellation of all of its holdings of capital stock in the Federal reserve bank: *Provided, however,* That no Federal reserve bank shall, except under express authority of the Federal Reserve Board, cancel within the same calendar year more than twenty-five per centum of its capital stock for the purpose of effecting voluntary withdrawals during that year. All such applications shall be dealt with in the order in which they are filed with the board. Whenever a member bank shall surrender its stock holdings in a Federal reserve bank, or shall be ordered to do so by the Federal Reserve Board, under authority of law, all of its rights and privileges as a member bank shall thereupon cease and determine, and after due provision has been made for any indebtedness due or to become due to the Federal Reserve bank it shall be entitled to a refund of its cash paid subscription with interest at the rate of one-half of one per centum per month from date of last dividend, if earned, the amount refunded in no event to exceed the book value of the stock at that time, and shall likewise be entitled to repayment of deposits and of any other balance due from the Federal reserve bank.

**9f.** No applying bank shall be admitted to membership in a Federal reserve bank unless (a) it possesses a paid-up, unimpaired capital sufficient to entitle it to become a national banking association in the place where it is situated under the provisions of the National Bank Act, or (b) it possesses a paid-up, unimpaired capital of at least 60 per centum of the amount sufficient to entitle it to become a national banking association in the place where it is situated under the provisions of the National Bank Act and, under penalty of

loss of membership complies with rules and regulations which the Federal Reserve Board shall prescribe fixing the time within which and the method by which the unimpaired capital of such bank shall be increased out of net income to equal the capital which would have been required if such bank had been admitted to membership under the provisions of clause (a) of this paragraph: *Provided*, That every such rule or regulation shall require the applying bank to set aside annually not less than 20 per centum of its net income of the preceding year as a fund exclusively applicable to such capital increase.

9g. Banks becoming members of the Federal Reserve System under authority of this section shall be subject to the provisions of this section and to those of this act which relate specifically to member banks, but shall not be subject to examination under the provisions of the first two paragraphs of section fifty-two hundred and forty of the Revised Statutes as amended by section twenty-one of this act.[1] Subject to the provisions of this act and to the regulations of the board made pursuant thereto, any bank becoming a member of the Federal Reserve System shall retain its full charter and statutory rights as a State bank or trust company, and may continue to exercise all corporate powers granted it by the State in which it was created, and shall be entitled to all privileges of member banks: *Provided, however*, That no Federal reserve bank shall be permitted to discount for any State bank or trust company notes, drafts, or bills of exchange of any one borrower who is liable for borrowed money to such State bank or trust company in an amount greater than that which could be borrowed lawfully from such State bank or trust company were it a national banking association.

It shall be unlawful for any officer, clerk, agent or any bank admitted to membership under authority of this section to certify any check drawn upon such bank unless the person or company drawing the check has on deposit therewith at the time such check is certified an amount of money equal to the amount specified in such check. Any check so certified by duly authorized officers shall be a good and valid obligation against such bank, but the act of any such officer, clerk, or agent in violation of this section may subject such bank to a forfeiture of its membership in the Federal Reserve System upon hearing by the Federal Reserve Board.[2]

## FEDERAL RESERVE BOARD

Sec. 10. A Federal Reserve Board is hereby created which shall consist of eight members, including the Secretary of the Treasury and the Comptroller of the Currency, who shall be members ex officio, and six members appointed by the President of the United States, by and with the advice and consent of the Senate. In selecting the six appointive members of the Federal Reserve Board, not more than one of whom shall be selected from any one

[1] Amending section 21 of this act.
[2] See section 5209, Revised Statutes, as amended by act of Sept. 26, 1918, for penalty for false certification of checks by officers of Federal Reserve Banks and national banks.

Federal reserve district, the President shall have due regard to a fair representation of the financial, agricultural, industrial and commercial interests and geographical divisions of the country. The six members of the Federal Reserve Board appointed by the President and confirmed as aforesaid shall devote their entire time to the business of the Federal Reserve Board and shall each receive an annual salary of $12,000, payable monthly together with actual necessary traveling expenses, and the Comptroller of the Currency, as ex officio member of the Federal Reserve Board, shall, in addition to the salary now paid him as Comptroller of the Currency, receive the sum of $7,000 annually for his services as a member of said board.

The Secretary of the Treasury and the Comptroller of the Currency shall be ineligible during the time they are in office and for two years thereafter to hold any office, position or employment in any member bank. The appointive members of the Federal Reserve Board shall be ineligible during the time they are in office and for two years thereafter to hold any office, position, or employment in any member bank, except that this restriction shall not apply to a member who has served the full term for which he was appointed. Of the six members thus appointed by the President one shall be designated by the President to serve for two, one for four, one for six, one for eight and the balance of the members for ten years, and thereafter each member so appointed shall serve for a term of ten years, unless sooner removed for cause by the President.

**10a.** Of the six persons thus appointed, one shall be designated by the President as governor and one as vice governor of the Federal Reserve Board. The governor of the Federal Reserve Board, subject to its supervision, shall be the active executive officer. The Secretary of the Treasury may assign offices in the Department of the Treasury for the use of the Federal Reserve Board. Each member of the Federal Reserve Board shall within fifteen days after notice of appointment make and subscribe to the oath of office.

**10b.** The Federal Reserve Board shall have power to levy semi-annally upon the Federal reserve banks, in proportion to their capital stock and surplus, an assessment sufficient to pay its estimated expenses and the salaries of its members and employees for the half year succeeding the levying of such assessment, together with any deficit carried forward from the preceding half year.

**10c.** The first meeting of the Federal Reserve Board shall be held in Washington, District of Columbia, as soon as may be after the passage of this Act, at a date to be fixed by the Reserve Bank Organization Committee. The Secretary of the Treasury shall be ex officio chairman of the Federal Reserve Board.

**10d.** No member of the Federal Reserve Board shall be an officer or director of any bank, banking institution, trust company, or Federal reserve bank nor hold stock in any bank, banking institution, or trust company; and before en-

tering upon his duties as a member of the Federal Reserve Board he shall certify under oath to the Secretary of the Treasury that he has complied with this requirement.

**10e.** Whenever a vacancy shall occur, other than by expiration of term, among the six members of the Federal Reserve Board appointed by the President, as above provided, a successor shall be appointed by the President, with the advice and consent of the Senate, to fill such vacancy, and when appointed he shall hold office for the unexpired term of the member whose place he is selected to fill.

The President shall have power to fill all vacancies that may happen on the Federal Reserve Board during the recess of the Senate, by granting commissions which shall expire with the next session of the Senate.

**10f.** Nothing in this Act contained shall be construed as taking away any powers heretofore vested by law in the Secretary of the Treasury which relate to the supervision, management, and control of the Treasury Department and bureaus under such department and wherever any power vested by this Act in the Federal Reserve Board or the Federal reserve agent appears to conflict with the powers of the Secretary of the Treasury, such powers shall be exercised subject to the supervision and control of the Secretary.

**10g.** The Federal Reserve Board shall annually make a full report of its operations to the Speaker of the House of Representatives, who shall cause the same to be printed for the information of the Congress.

**10h.** Section three hundred and twenty-four of the Revised Statutes of the United States shall be amended so as to read as follows: There shall be in the Department of the Treasury a bureau charged with the execution of all laws passed by Congress relating to the issue and regulation of national currency secured by United States bonds and, under the general supervision of the Federal Reserve Board, of all Federal reserve notes, the chief officer of which bureau shall be called the Comptroller of the Currency and shall perform his duties under the general directions of the Secretary of the Treasury.

No Federal reserve bank shall have authority hereafter to enter into any contract or contracts for the erection of any branch bank building of any kind or character, or to authorize the erection of any such building, if the cost of the building proper, exclusive of the cost of the vaults, permanent equipment, furnishings, and fixtures, is in excess of $250,000: *Provided,* That nothing herein shall apply to any building under construction prior to June 3, 1922.

## POWERS OF FEDERAL RESERVE BOARD

**Sec. 11.** The Federal Reserve Board shall be authorized and empowered:

**11a.** To examine at its discretion the accounts, books and affairs of each Federal reserve bank and of each member bank and to require such statements and reports as it may deem necessary. The said board shall publish once

each week a statement showing the condition of each Federal reserve bank and a consolidated statement for all Federal reserve banks. Such statements shall show in detail the assets and liabilities of the Federal reserve banks, single and combined, and shall furnish full information regarding the character of the money held as reserve and the amount, nature and maturities of the paper and other investments owned or held by Federal reserve banks.

**11b.** To permit, or, on the affirmative vote of at least five members of the Reserve Board, to require Federal reserve banks to rediscount the discounted paper of other Federal reserve banks at rates of interest to be fixed by the Federal Reserve Board.

**11c.** To suspend for a period not exceeding thirty days, and from time to time to renew such suspension for periods not exceeding fifteen days, any reserve requirements specified in this Act: *Provided,* That it shall establish a graduated tax upon the amounts by which the reserve requirements of this Act may be permitted to fall below the level hereinafter specified: *And provided further,* That when the gold reserve held against Federal reserve notes falls below forty per centum, the Federal Reserve Board shall establish a graduated tax of not more than one per centum per annum upon such deficiency until the reserves fall to thirty-two and one-half per centum, and when said reserve falls below thirty-two and one-half per centum, a tax at the rate increasingly of not less than one and one-half per centum per annum upon each two and one-half per centum or fraction thereof that such reserve falls below thirty-two and one-half per centum. The tax shall be paid by the reserve bank, but the reserve bank shall add an amount equal to said tax to the rates of interest and discount fixed by the Federal Reserve Board.

**11d.** To supervise and regulate through the bureau under the charge of the Comptroller of the Currency the issue and retirement of Federal reserve notes, and to prescribe rules and regulations under which such notes may be delivered by the Comptroller to the Federal reserve agents applying therefor.

**11e.** To add to the number of cities classified as reserve and central reserve cities under existing law in which national banking associations are subject to the reserve requirements set forth in section twenty of this Act; or to reclassify existing reserve and central reserve cities or to terminate their designation as such.

**11f.** To suspend or remove any officer or director of any Federal reserve bank, the cause of such removal to be forthwith communicated in writing by the Federal Reserve Board to the removed officer or director and to said bank.

**11g.** To require the writing off of doubtful or worthless assets upon the books and balance sheets of Federal reserve banks.

**11h.** To suspend, for the violation of any of the provisions of this Act, the operations of any Federal reserve bank, to take possession thereof, administer the same during the period of suspension, and, when deemed advisable, to liquidate or reorganize such bank.

11i. To require bonds of Federal reserve agents, to make regulations for the safeguarding of all collateral, bonds, Federal reserve notes, money or property of any kind deposited in the hands of such agents, and said board shall perform the duties, functions, or services specified in this Act, and make all rules and regulations necessary to enable said board effectively to perform the same.

11j. To exercise general supervision over said Federal reserve banks.

11k. To grant by special permit to national banks applying therefor, when not in contravention of State or local law, the right to act as trustee, executor, administrator, registrar of stocks and bonds, guardian of estates, assignee, receiver, committee of estates of lunatics, or in any other fiduciary capacity in which State banks, trust companies, or other corporations which come into competition with national banks are permitted to act under the laws of the State in which the national bank is located.

Whenever the laws of such State authorize or permit the exercise of any or all of the foregoing powers by State banks, trust companies, or other corporations which compete with national banks, the granting to and the exercise of such powers by national banks shall not be deemed to be in contravention of State or local law within the meaning of this Act.

National banks exercising any or all of the powers enumerated in this subsection shall segregate all assets held in any fiduciary capacity from the general assets of the bank and shall keep a separate set of books and records showing in proper detail all transactions engaged in under authority of this subsection. Such books and records shall be open to inspection by the State authorities to the same extent as the books and records of corporations organized under State law which exercise fiduciary powers, but nothing in this Act shall be construed as authorizing the State authorities to examine the books, records, and assets of the national bank which are not held in trust under authority of this subsection.

No national bank shall receive in its trust department deposits of current funds subject to check or the deposit of checks, drafts, bills of exchange, or other items for collection or exchange purposes. Funds deposited or held in trust by the bank awaiting investment shall be carried in a separate account and shall not be used by the bank in the conduct of its business unless it shall first set aside in the trust department United States bonds or other securities approved by the Federal Reserve Board.

In the event of the failure of such bank the owners of the funds held in trust for investment shall have a lien on the bonds or other securities so set apart in addition to their claim against the estate of the bank.

Whenever the laws of a State require corporations acting in a fiduciary capacity to deposit securities with the State authorities for the protection of private or court trusts, national banks so acting shall be required to make similar deposits, and securities so deposited shall be held for the protection of private or court trusts, as provided by the State law.

National banks in such cases shall not be required to execute the bond usually required of individuals if State corporations under similar circumstances are exempt from this requirement.

National banks shall have power to execute such bond when so required by the laws of the State.

In any case in which the laws of a State require that a corporation acting as trustee, executor, administrator, or in any capacity specified in this section, shall take an oath or make an affidavit, the president, vice president, cashier, or trust officer of such national bank may take the necessary oath or execute the necessary affidavit.

It shall be unlawful for any national banking association to lend any officer, director, or employee any funds held in trust under the powers conferred by this section. Any officer, director, or employee making such loan, or to whom such loan is made, may be fined not more than $5,000, or imprisoned not more than five years, or may be both fined and imprisoned, in the discretion of the court.

In passing upon applications for permission to exercise the powers enumerated in this subsection, the Federal Reserve Board may take into consideration the amount of capital and surplus of the applying bank, whether or not such capital and surplus is sufficient under the circumstances of the case, the needs of the community to be served, and any other facts and circumstances that seem to it proper, and may grant or refuse the application accordingly: *Provided*, That no permit shall be issued to any national banking association having a capital and surplus less than the capital and surplus required by State law of State banks, trust companies, and corporations exercising such powers.

**11l.** To employ such attorneys, experts, assistants, clerks, or other employees as may be deemed necessary to conduct the business of the board. All salaries and fees shall be fixed in advance by said board and shall be paid in the same manner as the salaries of the members of said board. All such attorneys, experts, assistants, clerks, and other employees shall be appointed without regard to the provisions of the Act of January sixteenth, eighteen hundred and eighty-three (volume twenty-two, United States Statutes at Large, page four hundred and three), and amendments thereto, or any rule or regulation made in pursuance thereof: *Provided*, That nothing herein shall prevent the President from placing said employees in the classified service.

**11m.** Upon the affirmative vote of not less than five of its members, the Federal Reserve Board shall have power to permit Federal reserve banks to discount for any member bank notes, drafts, or bills of exchange bearing the signature or endorsement of any one borrower in excess of the amount permitted by section nine and section thirteen of this Act, but in no case to exceed twenty per centum of the member bank's capital and surplus: *Provided, however*, That all such notes, drafts, or bills of exchange discounted for any member bank in excess of the amount permitted under such sections shall be secured by not less than a like face amount of bonds or notes of the United

States issued since April twenty-fourth, nineteen hundred and seventeen, or certificates of indebtedness of the United States: *Provided further,* That the provisions of this subsection (m) shall not be operative after December thirty-first, nineteen hundred and twenty.

## FEDERAL ADVISORY COUNCIL

**Sec. 12.** There is hereby created a Federal Advisory Council, which shall consist of as many members as there are Federal reserve districts. Each Federal reserve bank by its board of directors shall annually select from its own Federal reserve district one member of said council, who shall receive such compensation and allowances as may be fixed by his board of directors subject to the approval of the Federal Reserve Board. The meetings of said advisory council shall be held at Washington, District of Columbia, at least four times each year, and oftener if called by the Federal Reserve Board. The council may in addition to the meetings above provided for hold such other meetings in Washington, District of Columbia, or elsewhere, as it may deem necessary, may select its own officers and adopt its own methods of procedure, and a majority of its members shall constitute a quorum for the transaction of business. Vacancies in the council shall be filled by the respective reserve banks, and members selected to fill vacancies shall serve for the unexpired term.

**12a.** The Federal Advisory Council shall have power, by itself or through its officers, (1) to confer directly with the Federal Reserve Board on general business conditions; (2) to make oral or written representations concerning matters within the jurisdiction of said board; (3) to call for information and to make recommendations in regard to discount rates, rediscount business, note issues, reserve conditions in the various districts, the purchase and sale of gold or securities by reserve banks, open-market operations by said banks, and the general affairs of the reserve banking system.

## POWERS OF FEDERAL RESERVE BANKS

**Sec. 13.** Any Federal reserve bank may receive from any of its member banks, and from the United States,[1] deposits of current funds in lawful money, national-bank notes, Federal reserve notes, or checks, and drafts, payable upon presentation, and also, for collection, maturing notes and bills; or, solely for purposes of exchange or of collection, may receive from other Federal reserve banks deposits of current funds in lawful money, national-bank notes, or checks upon other Federal reserve banks, and checks and drafts payable upon presentation within its district, and maturing notes and bills payable within its district; or, solely for the purposes of exchange or of collection, may receive from any nonmember bank or trust company deposits of current funds in lawful money, national-bank notes, Federal reserve notes, checks and drafts payable upon presentation, or maturing notes and bills: *Provided,* Such non-

[1] Under authority of War Finance Act, approved April 5, 1918, as amended by act of March 3, 1919, may receive deposits from War Finance Corporation.

member bank or trust company maintains with the Federal reserve bank of its district a balance sufficient to offset the items in transit held for its account by the Federal reserve bank: *Provided, further,* That nothing in this or any other section of this act shall be construed as prohibiting a member or non-member bank from making reasonable charges, to be determined and regulated by the Federal Reserve Board, but in no case to exceed 10 cents per $100 or fraction thereof, based on the total of checks and drafts presented at any one time, for collection or payment of checks and drafts and remission therefor by exchange or otherwise; but no such charges shall be made against the Federal reserve banks.

13a. Upon the indorsement of any of its member banks, which shall be deemed a waiver of demand, notice and protest by such bank as to its own indorsement exclusively, any Federal reserve bank may discount notes, drafts, and bills of exchange arising out of actual commercial transactions; that is, notes, drafts, and bills of exchange issued or drawn for agricultural, industrial, or commercial purposes, or the proceeds of which have been used, or are to be used, for such purposes, the Federal Reserve Board to have the right to determine or define the character of the paper thus eligible for discount, within the meaning of this Act. Nothing in this Act contained shall be construed to prohibit such notes, drafts, and bills of exchange, secured by staple agricultural products, or other goods, wares, or merchandise, from being eligible for such discount; but such definition shall not include notes, drafts, or bills covering merely investments or issued or drawn for the purpose of carrying or trading in stocks, bonds, or other investment securities, except bonds and notes of the Government of the United States.[1] Notes, drafts, and bills admitted to discount under the terms of this paragraph must have a maturity at the time of discount of not more than ninety days, exclusive of days of grace: *Provided,* That notes, drafts, and bills drawn or issued for agricultural purposes or based on live stock and having a maturity not exceeding six months, exclusive of days of grace, may be discounted in an amount to be limited to a percentage of the assets of the Federal reserve bank, to be ascertained and fixed by the Federal Reserve Board.

The aggregate of such notes, drafts, and bills bearing the signature or indorsement of any one borrower, whether a person, company, firm, or corporation, rediscounted for any one bank shall at no time exceed ten per centum of the unimpaired capital and surplus of said bank; but this restriction shall not apply to the discount of bills of exchange drawn in good faith against actually existing values.[2]

13b. Any Federal reserve bank may discount acceptances of the kinds hereinafter described, which have a maturity at the time of discount of not more than three months' sight, exclusive of days of grace, and which are indorsed by at least one member bank.

Any member bank may accept drafts or bills of exchange drawn upon it

[1] Or bonds of the War Finance Corporation. See act approved Apr. 5, 1918.
[2] Amended by section II (m), as amended March 3, 1919.

having not more than six months' sight to run, exclusive of days of grace, which grow out of transactions involving the importation or exportation of goods; or which grow out of transactions involving the domestic shipment of goods provided shipping documents conveying or securing title are attached at the time of acceptance; or which are secured at the time of acceptance by a warehouse receipt or other such document conveying or securing title covering readily marketable staples. No member bank shall accept, whether in a foreign or domestic transaction, for any one person, company, firm, or corporation to an amount equal at any time in the aggregate to more than ten per centum of its paid-up and unimpaired capital stock and surplus, unless the bank is secured either by attached documents or by some other actual security growing out of the same transaction as the acceptance; and no bank shall accept such bills to an amount equal at any time in the aggregate to more than one-half of its paid-up and unimpaired capital stock and surplus: *Provided, however,* That the Federal Reserve Board, under such general regulations as it may prescribe, which shall apply to all banks alike regardless of the amount of capital stock and surplus, may authorize any member bank to accept such bills to an amount not exceeding at any time in the aggregate one hundred per centum of its paid-up and unimpaired capital stock and surplus: *Provided further,* That the aggregate of acceptances growing out of domestic transactions shall in no event exceed fifty per centum of such capital stock and surplus.

Any Federal reserve bank may make advances to its member banks on their promissory notes for a period not exceeding fifteen days at rates to be established by such Federal reserve banks, subject to the review and determination of the Federal Reserve Board, provided such promissory notes are secured by such notes, drafts, bills of exchange, or bankers' acceptances as are eligible for rediscount or for purchase by Federal reserve banks under the provisions of this Act, or by the deposit or pledge of bonds or notes of the United States.[1]

13c. Section fifty-two hundred and two of the Revised Statutes of the United States is hereby amended so as to read as follows: No national banking association shall at any time be indebted, or in any way liable, to an amount exceeding the amount of its capital stock at such time actually paid in and remaining undiminished by losses or otherwise, except on account of demands of the nature following:

First. Notes of circulation.

Second. Moneys deposited with or collected by the association.

Third. Bills of exchange or drafts drawn against money actually on deposit to the credit of the association, or due thereto.

Fourth. Liabilities to the stockholders of the association for dividends and reserve profits.

Fifth. Liabilities incurred under the provisions of the Federal Reserve Act.[2]

[1] Or by bonds and notes of War Finance Corporation. See section 13, War Finance Corporation Act, approved Apr. 5, 1918.

[2] Also liabilities incurred under the provisions of the War Finance Corporation Act. See section 20, War Finance Corporation Act, approved Apr. 5, 1918.

The discount and rediscount and the purchase and sale by any Federal reserve bank of any bills receivable and of domestic and foreign bills of exchange, and of acceptances authorized by this Act, shall be subject to such restrictions, limitations, and regulations as may be imposed by the Federal Reserve Board.

That in addition to the powers now vested by law in national banking associations organized under the laws of the United States any such association located and doing business in any place the population of which does not exceed five thousand inhabitants, as shown by the last preceding decennial census, may, under such rules and regulations as may be prescribed by the Comptroller of the Currency, act as the agent for any fire, or other insurance company authorized by the authorities of the State in which said bank is located to do business in said State, by soliciting and selling insurance and collecting premiums on policies issued by such company; and may receive for services so rendered such fees or commissions as may be agreed upon between the said association and the insurance company for which it may act as agent; and may also act as the broker or agent for others in making or procuring loans on real estate located within one hundred miles of the place in which said bank may be located, receiving for such services a reasonable fee or commission: *Provided, however,* That no such bank shall in any case guarantee either the principal or interest of any such loans or assume or guarantee the payment of any premium on insurance policies issued through its agency by its principal: *And provided further,* That the bank shall not guarantee the truth of any statement made by an assured in filing his application for insurance.

Any member bank may accept drafts or bills of exchange drawn upon it having not more than three months' sight to run, exclusive of days of grace, drawn under regulations to be prescribed by the Federal Reserve Board by banks or bankers in foreign countries or dependencies or insular possessions of the United States for the purpose of furnishing dollar exchange as required by the usages of trade in the respective countries, dependencies, or insular possessions. Such drafts or bills may be acquired by Federal reserve banks in such amounts and subject to such regulations, restrictions, and limitations as may be prescribed by the Federal Reserve Board: *Provided, however,* That no member bank shall accept such drafts or bills of exchange referred to in this paragraph for any one bank to an amount exceeding in the aggregate ten per centum of the paid-up and unimpaired capital and surplus of the accepting bank unless the draft or bill of exchange is accompanied by documents conveying or securing title or by some other adequate security: *Provided further,* That no member bank shall accept such drafts or bills in an amount exceeding at any time the aggregate of one-half of its paid-up and unimpaired capital and surplus.

## OPEN-MARKET OPERATIONS

**Sec. 14.** Any Federal reserve bank may, under rules and regulations prescribed by the Federal Reserve Board, purchase and sell in the open market, at home or abroad, either from or to domestic or foreign banks, firms, corporations, or individuals, cable transfers and bankers' acceptances and bills of

exchange of the kinds and maturities by this Act made eligible for rediscount, with or without the indorsement of a member bank.

Every Federal reserve bank shall have power:

**14a.** To deal in gold coin and bullion at home or abroad, to make loans thereon, exchange Federal reserve notes for gold, gold coin, or gold certificates, and to contract for loans of gold coin or bullion, giving therefor, when necessary, acceptable security, including the hypothecation of United States bonds or other securities which Federal reserve banks are authorized to hold;

**14b.** To buy and sell, at home or abroad, bonds and notes of the United States, and bills, notes, revenue bonds, and warrants with a maturity from date of purchase of not exceeding six months, issued in anticipation of the collection of taxes or in anticipation of the receipt of assured revenues by any State, county, district, political subdivision, or municipality in the continental United States, including irrigation, drainage and reclamation districts, such purchases to be made in accordance with rules and regulations prescribed by the Federal Reserve Board;

**14c.** To purchase from member banks and to sell, with or without its indorsement, bills of exchange arising out of commercial transactions, as hereinbefore defined;

**14d.** To establish from time to time, subject to review and determination of the Federal Reserve Board, rates of discount to be charged by the Federal Reserve bank for each class of paper, which shall be fixed with a view of accommodating commerce and business, and which, subject to the approval, review, and determination of the Federal Reserve Board, may be graduated or progressed on the basis of the amount of the advances and discount accommodations extended by the Federal reserve bank to the borrowing bank;

**14e.** To establish accounts with other Federal reserve banks for exchange purposes and, with the consent or upon the order and direction of the Federal Reserve Board and under regulations to be prescribed by said board, to open and maintain accounts in foreign countries, appoint correspondents, and establish agencies in such countries wheresoever it may be deemed best for the purpose of purchasing, selling, and collecting bills of exchange, and to buy and sell, with or without its indorsement, through such correspondents or agencies, bills of exchange (or acceptances) arising out of actual commercial transactions which have not more than ninety days to run, exclusive of days of grace, and which bear the signature of two or more responsible parties, and, with the consent of the Federal Reserve Board, to open and maintain banking accounts for such foreign correspondents or agencies. Whenever any such account has been opened or agency or correspondent has been appointed by a Federal reserve bank, with the consent of or under the order and direction of the Federal Reserve Board, any other Federal reserve bank may, with the consent and approval of the Federal Reserve Board, be permitted to carry

on or conduct, through the Federal reserve bank opening such account or appointing such agency or correspondent, any transaction authorized by this section under rules and regulations to be prescribed by the board.

## GOVERNMENT DEPOSITS

**Sec. 15.** The moneys held in the general fund of the Treasury, except the five per centum fund for the redemption of outstanding national-bank notes and the funds provided in this Act for the redemption of Federal reserve notes may, upon the direction of the Secretary of the Treasury, be deposited in Federal reserve banks, which banks, when required by the Secretary of the Treasury, shall act as fiscal agents of the United States;[1] and the revenues of the Government or any part thereof may be deposited in such banks, and disbursements may be made by checks drawn against such deposits.

No public funds of the Philippine Islands, or of the postal savings, or any Government funds, shall be deposited in the continental United States in any bank not belonging to the system established by this Act:[2] *Provided, however,* That nothing in this Act shall be construed to deny the right of the Secretary of the Treasury to use member banks as depositories.

## NOTE ISSUES

**Sec. 16.** Federal reserve notes, to be issued at the discretion of the Federal Reserve Board for the purpose of making advances to Federal reserve banks through the Federal reserve agents as hereinafter set forth and for no other purpose, are hereby authorized. The said notes shall be obligations of the United States and shall be receivable by all national and member banks and Federal reserve banks and for all taxes, customs, and other public dues. They shall be redeemed in gold on demand at the Treasury Department of the United States, in the city of Washington, District of Columbia, or in gold or lawful money at any Federal reserve bank.

**16a.** Any Federal reserve bank may make application to the local Federal reserve agent for such amount of the Federal reserve notes hereinbefore provided for as it may require. Such application shall be accompanied with a tender to the local Federal reserve agent of collateral in amount equal to the sum of the Federal reserve notes thus applied for and issued pursuant to such application. The collateral security thus offered shall be notes, drafts, bills of exchange, or acceptances acquired under the provisions of section thirteen of this act, or bills of exchange indorsed by a member bank of any Federal reserve district and purchased under the provisions of section fourteen of this act, or bankers' acceptances purchased under the provisions of said

[1] Under War Finance Corporation Act, approved Apr. 5, 1918, as amended by Act of Mar. 3, 1919, Federal Reserve Banks may also act as fiscal agents of the War Finance Corporation.

[2] Under section 7 of the act approved Apr. 24, 1917, section 8 of the act approved Sept. 24, 1917, and section 8 of the act approved Apr. 4, 1918, the proceeds of sale of Liberty bonds of the first, second, and third issues may be deposited in nonmember banks. The act of May 18, 1916, amending the Postal Savings Act, authorizes the deposit of postal savings funds in nonmember banks.

section fourteen, or gold or gold certificates; but in no event shall such collateral security, whether gold, gold certificates, or eligible paper, be less than the amount of Federal reserve notes applied for.[1] The Federal reserve agent shall each day notify the Federal Reserve Board of all issues and withdrawals of Federal reserve notes to and by the Federal reserve bank to which he is accredited. The said Federal Reserve Board may at any time call upon a Federal reserve bank for additional security to protect the Federal reserve notes issued to it.

16b. Every Federal reserve bank shall maintain reserves in gold or lawful money of not less than thirty-five per centum against its deposits and reserves in gold of not less than forty per centum against its Federal reserve notes in actual circulation: *Provided, however,* That when the Federal reserve agent holds gold or gold certificates as collateral for Federal reserve notes issued to the bank such gold or gold certificates shall be counted as part of the gold reserve which such bank is required to maintain against its Federal reserve notes in actual circulation.

16c. Notes so paid out shall bear upon their faces a distinctive letter and serial number which shall be assigned by the Federal Reserve Board to each Federal reserve bank. Whenever Federal reserve notes issued through one Federal reserve bank shall be received by another Federal reserve bank, they shall be promptly returned for credit or redemption to the Federal reserve bank through which they were originally issued or, upon direction of such Federal reserve bank, they shall be forwarded direct to the Treasurer of the United States to be retired. No Federal reserve bank shall pay out notes issued through another under penalty of a tax of ten per centum upon the face value of notes so paid out. Notes presented for redemption at the Treasury of the United States shall be paid out of the redemption fund and returned to the Federal reserve banks through which they were originally issued, and thereupon such Federal reserve bank shall, upon demand of the Secretary of the Treasury, reimburse such redemption fund in lawful money or, if such Federal reserve notes have been redeemed by the Treasurer in gold or gold certificates, then such funds shall be reimbursed to the extent deemed necessary by the Secretary of the Treasury in gold or gold certificates, and such Federal reserve bank shall, so long as any of its Federal reserve notes remain outstanding, maintain with the Treasurer in gold an amount sufficient in the judgment of the Secretary to provide for all redemptions to be made by the Treasurer. Federal reserve notes received by the Treasurer otherwise than for redemption may be exchanged for gold out of the redemption fund hereinafter provided and returned to the reserve bank through which they were originally issued, or they may be returned to such bank for the credit of the United States. Federal reserve notes unfit for circulation shall be returned

[1] Under section 13 of War Finance Corporation Act, approved Apr. 5, 1918, notes secured by War Finance Corporation bonds may be used to same extent, as collateral, as notes secured by United States bonds.

by the Federal reserve agents to the Comptroller of the Currency for cancellation and destruction.

**16d.** The Federal Reserve Board shall require each Federal reserve bank to maintain on deposit in the Treasury of the United States a sum in gold sufficient in the judgment of the Secretary of the Treasury for the redemption of the Federal reserve notes issued to such bank, but in no event less than five per centum of the total amount of notes issued less the amount of gold or gold certificates held by the Federal reserve agent as collateral security; but such deposit of gold shall be counted and included as part of the forty per centum reserve hereinbefore required.

**16e.** The board shall have the right, acting through the Federal reserve agent, to grant in whole or in part, or to reject entirely the application of any Federal reserve bank for Federal reserve notes; but to the extent that such application may be granted the Federal Reserve Board shall, through its local Federal reserve agent, supply Federal reserve notes to the banks so applying, and such bank shall be charged with the amount of notes issued to it and shall pay such rate of interest as may be established by the Federal Reserve Board on only that amount of such notes which equals the total amount of its outstanding Federal reserve notes less the amount of gold or gold certificates held by the Federal reserve agent as collateral security. Federal reserve notes issued to any such bank shall, upon delivery, together with such notes of such Federal reserve bank as may be issued under section eighteen of this act upon security of United States two per centum Government bonds, become a first and paramount lien on all the assets of such bank.

**16f.** Any Federal reserve bank may at any time reduce its liability for outstanding Federal reserve notes by depositing with the Federal reserve agent its Federal reserve notes, gold, gold certificates, or lawful money of the United States. Federal reserve notes so deposited shall not be reissued, except upon compliance with the conditions of an original issue.

The Federal reserve agent shall hold such gold, gold certificates, or lawful money available exclusively for exchange for the outstanding Federal reserve notes when offered by the reserve bank of which he is a director. Upon the request of the Secretary of the Treasury the Federal Reserve Board shall require the Federal reserve agent to transmit to the Treasurer of the United States so much of the gold held by him as collateral security for Federal reserve notes as may be required for the exclusive purpose of the redemption of such Federal reserve notes, but such gold when deposited with the Treasurer shall be counted and considered as if collateral security on deposit with the Federal reserve agent.

**16g.** Any Federal reserve bank may at its discretion withdraw collateral deposited with the local Federal reserve agent for the protection of its Federal reserve notes issued to it and shall at the same time substitute therefor other collateral of equal amount with the approval of the Federal reserve

agent under regulations to be prescribed by the Federal Reserve Board. Any Federal reserve bank may retire any of its Federal reserve notes by depositing them with the Federal reserve agent or with the Treasurer of the United States, and such Federal reserve bank shall thereupon be entitled to receive back the collateral deposited with the Federal reserve agent for the security of such notes. Federal reserve banks shall not be required to maintain the reserve or the redemption fund heretofore provided for against Federal reserve notes which have been retired. Federal reserve notes so deposited shall not be reissued except upon compliance with the conditions of an original issue.

All Federal reserve notes and all gold, gold certificates, and lawful money issued to or deposited with any Federal reserve agent under the provisions of the Federal reserve act shall hereafter be held for such agent, under such rules and regulations as the Federal Reserve Board may prescribe, in the joint custody of himself and the Federal reserve bank to which he is accredited. Such agent and such Federal reserve bank shall be jointly liable for the safe-keeping of such Federal reserve notes, gold, gold certificates, and lawful money. Nothing herein contained, however, shall be construed to prohibit a Federal reserve agent from depositing gold or gold certificates with the Federal Reserve Board, to be held by such board subject to his order, or with the Treasurer of the United States for the purposes authorized by law.

**16h.** In order to furnish suitable notes for circulation as Federal reserve notes, the Comptroller of the Currency shall, under the direction of the Secretary of the Treasury, cause plates and dies to be engraved in the best manner to guard against counterfeits and fraudulent alterations, and shall have printed therefrom and numbered such quantities of such notes of the denominations of $5, $10, $20, $50, $100, $500, $1000, $5000, $10,000 as may be required to supply the Federal reserve banks. Such notes shall be in form and tenor as directed by the Secretary of the Treasury under the provisions of this Act and shall bear the distinctive numbers of the several Federal reserve banks through which they are issued.

When such notes have been prepared, they shall be deposited in the Treasury, or in the subtreasury or mint of the United States nearest the place of business of each Federal reserve bank and shall be held for the use of such bank subject to the order of the Comptroller of the Currency for their delivery, as provided by this Act.

The plates and dies to be procured by the Comptroller of the Currency for the printing of such circulating notes shall remain under his control and direction, and the expenses necessarily incurred in executing the laws relating to the procuring of such notes, and all other expenses incidental to their issue and retirement, shall be paid by the Federal reserve banks, and the Federal Reserve Board shall include in its estimate of expenses levied against the Federal reserve banks a sufficient amount to cover the expenses herein provided for.

The examination of plates, dies, bed pieces, and so forth, and regulations relating to such examinations of plates, dies, and so forth, of national-bank

notes provided for in section fifty-one hundred and seventy-four Revised Statutes, is hereby extended to include notes herein provided for.

**16i.** Any appropriation heretofore made out of the general funds of the Treasury for engraving plates and dies, the purchase of distinctive paper, or to cover any other expense in connection with the printing of national-bank notes or notes provided for by the Act of May thirtieth, nineteen hundred and eight, and any distinctive paper that may be on hand at the time of the passage of this Act may be used in the discretion of the Secretary for the purposes of this Act, and should the appropriations heretofore made be insufficient to meet the requirements of this Act in addition to circulating notes provided for by existing law, the Secretary is hereby authorized to use so much of any funds in the Treasury not otherwise appropriated for the purpose of furnishing the notes aforesaid: *Provided, however,* That nothing in this section contained shall be construed as exempting national banks or Federal reserve banks from their liability to reimburse the United States for any expenses incurred in printing and issuing circulating notes.

**16j.** Every Federal reserve bank shall receive on deposit at par from member banks or from Federal reserve banks checks and drafts drawn upon any of its depositors, and when remitted by a Federal reserve bank, checks and drafts drawn by any depositor in any other Federal reserve bank or member bank upon funds to the credit of said depositor in said reserve bank or member bank.

**16k.** Nothing herein contained shall be construed as prohibiting a member bank from charging its actual expense incurred in collecting and remitting funds, or for exchange sold to its patrons. The Federal Reserve Board shall, by rule, fix the charges to be collected by the member banks from its patrons whose checks are cleared through the Federal reserve bank and the charge which may be imposed for the service of clearing or collection rendered by the Federal reserve bank.

**16l.** The Federal Reserve Board shall make and promulgate from time to time regulations governing the transfer of funds and charges therefor among Federal reserve banks and their branches, and may at its discretion exercise the functions of a clearing house for such Federal reserve banks, or may designate a Federal reserve bank to exercise such functions, and may also require each such bank to exercise the functions of a clearing house for its member banks.

**16m.** That the Secretary of the Treasury is hereby authorized and directed to receive deposits of gold coin or of gold certificates with the Treasurer or any assistant treasurer of the United States when tendered by any Federal reserve bank or Federal reserve agent for credit to its or his account with the Federal Reserve Board. The Secretary shall prescribe by regulation the form of receipt to be issued by the Treasurer or Assistant Treasurer to the Federal reserve bank or Federal reserve agent making the deposit, and a

duplicate of such receipt shall be delivered to the Federal Reserve Board by the Treasurer at Washington upon proper advices from any assistant treasurer that such deposit has been made. Deposits so made shall be held subject to the orders of the Federal Reserve Board and shall be payable in gold coin or gold certificates on the order of the Federal Reserve Board to any Federal reserve bank or Federal reserve agent at the Treasury or at the Subtreasury of the United States nearest the place of business of such Federal reserve bank or such Federal reserve agent: *Provided, however,* That any expense incurred in shipping gold to or from the Treasury or subtreasuries in order to make such payments, or as a result of making such payments, shall be paid by the Federal Reserve Board and assessed against the Federal reserve banks. The order used by the Federal Reserve Board in making such payments shall be signed by the governor or vice governor, or such other officers or members as the board may by regulation prescribe. The form of such order shall be approved by the Secretary of the Treasury.

The expenses necessarily incurred in carrying out these provisions, including the cost of the certificates or receipts issued for deposits received, and all expenses incident to the handling of such deposits shall be paid by the Federal Reserve Board and included in its assessments against the several Federal reserve banks.

Gold deposits standing to the credit of any Federal reserve bank with the Federal Reserve Board shall, at the option of said bank, be counted as part of the lawful reserve which it is required to maintain against outstanding Federal reserve notes, or as a part of the reserve it is required to maintain against deposits.

Nothing in this section shall be construed as amending section six of the act of March fourteenth, nineteen hundred, as amended by the acts of March fourth, nineteen hundred and seven, March second, nineteen hundred and eleven, and June twelfth, nineteen hundred and sixteen, nor shall the provisions of this section be construed to apply to the deposits made or to the receipts or certificates issued under those acts.

**Sec. 17.** So much of the provisions of section fifty-one hundred and fifty-nine of the Revised Statutes of the United States, and section four of the act of June twentieth, eighteen hundred and seventy-four, and section eight of the act of July twelfth, eighteen hundred and eighty-two, and of any other provisions of existing statutes as require that before any national banking association shall be authorized to commence banking business it shall transfer and deliver to the Treasurer of the United States a stated amount of United States registered bonds, and so much of those provisions or of any other provisions of existing statutes as require any national banking association now or hereafter organized to maintain a minimum deposit of such bonds with the Treasurer is hereby repealed.

## REFUNDING BONDS

**Sec. 18.** After two years from the passage of this Act, and at any time during a period of twenty years thereafter, any member bank desiring to

retire the whole or any part of its circulating notes may file with the Treasurer of the United States an application to sell for its account, at par and accrued interest, United States bonds securing circulation to be retired.

**18a.** The Treasurer shall, at the end of each quarterly period, furnish the Federal Reserve Board with a list of such applications, and the Federal Reserve Board may, in its discretion, require the Federal reserve banks to purchase such bonds from the banks whose applications have been filed with the Treasurer at least ten days before the end of any quarterly period at which the Federal Reserve Board may direct the purchase to be made: *Provided,* That Federal reserve banks shall not be permitted to purchase an amount to exceed $25,000,000 of such bonds in any one year, and which amount shall include bonds acquired under section four of this Act by the Federal reserve bank.

*Provided further,* That the Federal Reserve Board shall allot to each Federal reserve bank such proportion of such bonds as the capital and surplus of such bank shall bear to the aggregate capital and surplus of all the Federal reserve banks.

Upon notice from the Treasurer of the amount of bonds so sold for its account, each member bank shall duly assign and transfer, in writing, such bonds to the Federal reserve bank purchasing the same, and such Federal reserve bank shall, thereupon, deposit lawful money with the Treasurer of the United States for the purchase price of such bonds, and the Treasurer shall pay to the member bank selling such bonds any balance due after deducting a sufficient sum to redeem its outstanding notes secured by such bonds, which notes shall be canceled and permanently retired when redeemed.

**18b.** The Federal reserve banks purchasing such bonds shall be permitted to take out an amount of circulating notes equal to the par value of such bonds.

Upon the deposit with the Treasurer of the United States of bonds so purchased, or any bonds with the circulating privilege acquired under section four of this Act, any Federal reserve bank making such deposit in the manner provided by existing law, shall be entitled to receive from the Comptroller of the Currency circulating notes in blank, registered and countersigned as provided by law, equal in amount to the par value of the bonds so deposited.[1] Such notes shall be the obligations of the Federal reserve bank procuring the same, and shall be in form prescribed by the Secretary of the Treasury, and to the same tenor and effect as national-bank notes now provided by law. They shall be issued and redeemed under the same terms and conditions as national-bank notes except that they shall not be limited to the amount of the capital stock of the Federal reserve bank issuing them.

**18c.** Upon application of any Federal reserve bank, approved by the Federal Reserve Board, the Secretary of the Treasury may issue, in exchange

[1] Under act of Apr. 23, 1918, Federal reserve banks may issue Federal reserve bank notes in any denominations, including $1 and $2, against the security of United States certificates of indebtedness to the extent permitted by that act.

for United States two per centum gold bonds bearing the circulation privilege, but against which no circulation is outstanding, one-year gold notes of the United States without the circulation privilege, to an amount not to exceed one-half of the two per centum bonds so tendered for exchange, and thirty-year three per centum gold bonds without the circulation privilege for the remainder of the two per centum bonds so tendered: *Provided,* That at the time of such exchange the Federal reserve bank obtaining such one-year gold notes shall enter into an obligation with the Secretary of the Treasury binding itself to purchase from the United States for gold at the maturity of such one-year notes, an amount equal to those delivered in exchange for such bonds, if so requested by the Secretary, and at each maturity of one-year notes so purchased by such Federal reserve bank, to purchase from the United States such an amount of one-year notes as the Secretary may tender to such bank, not to exceed the amount issued to such bank in the first instance, in exchange for the two per centum United States gold bonds; said obligation to purchase at maturity such notes shall continue in force for a period not to exceed thirty years.

For the purpose of making the exchange herein provided for, the Secretary of the Treasury is authorized to issue at par Treasury notes in coupon or registered form as he may prescribe in denominations of one hundred dollars, or any multiple thereof, bearing interest at the rate of three per centum per annum, payable quarterly, such Treasury notes to be payable not more than one year from the date of their issue in gold coin of the present standard value, and to be exempt as to principal and interest from the payment of all taxes and duties of the United States except as provided by this Act, as well as from taxes in any form by or under State, municipal, or local authorities. And for the same purpose, the Secretary is authorized and empowered to issue United States gold bonds at par, bearing three per centum interest payable thirty years from date of issue, such bonds to be of the same general tenor and effect and to be issued under the same general terms and conditions as the United States three per centum bonds without the circulation privilege now issued and outstanding.

**18d.** Upon application of any Federal reserve bank, approved by the Federal Reserve Board, the Secretary may issue at par such three per centum bonds in exchange for the one-year gold notes herein provided for.

## BANK RESERVES

**Sec. 19.** Demand deposits within the meaning of this Act shall comprise all deposits payable within thirty days, and time deposits shall comprise all deposits payable after thirty days, all savings accounts and certificates of deposit which are subject to not less than thirty days' notice before payment, and all postal savings deposits.[1]

[1] Government deposits other than postal savings deposits are not subject to reserve requirements. See section 7 of First Liberty Bond Act, approved Apr. 24, 1917; section 8 of Second Liberty Bond Act, approved Sept. 24, 1917; and section 8 of Third Liberty Bond Act, approved Apr. 4, 1918.

Every bank, banking association, or trust company which is or which becomes a member of any Federal reserve bank shall establish and maintain reserve balances with its Federal reserve bank as follows:

**19a.** If not in a reserve or central reserve city, as now or hereafter defined, it shall hold and maintain with the Federal reserve bank of its district an actual net balance equal to not less than seven per centum of the aggregate amount of its demand deposits and three per centum of its time deposits.

**19b.** If in a reserve city, as now or hereafter defined, it shall hold and maintain with the Federal reserve bank of its district an actual net balance equal to not less than ten per centum of the aggregate amount of its demand deposits and three per centum of its time deposits: *Provided, however,* That if located in the outlying districts of a reserve city or in territory added to such a city by the extension of its corporate charter, it may, upon the affirmative vote of five members of the Federal Reserve Board, hold and maintain the reserve balances specified in paragraph (*a*) hereof.

**19c.** If in a central reserve city, as now or hereafter defined, it shall hold and maintain with the Federal reserve bank of its district an actual net balance equal to not less than thirteen per centum of the aggregate amount of its demand deposits and three per centum of its time deposits: *Provided, however,* That if located in the outlying districts of a central reserve city or in territory added to such city by the extension of its corporate charter, it may, upon the affirmative vote of five members of the Federal Reserve Board, hold and maintain the reserve balances specified in paragraphs (*a*) or (*b*) thereof.

**19d.** No member bank shall keep on deposit with any State bank or trust company which is not a member bank a sum in excess of ten per centum of its own paid-up capital and surplus. No member bank shall act as the medium or agent of a nonmember bank in applying for or receiving discounts from a Federal reserve bank under the provisions of this Act, except by permission of the Federal Reserve Board.

**19e.** The required balance carried by a member bank with a Federal reserve bank may, under the regulations and subject to such penalities as may be prescribed by the Federal Reserve Board, be checked against and withdrawn by such member bank for the purpose of meeting existing liabilities: *Provided, however,* That no bank shall at any time make new loans or shall pay any dividends unless and until the total balance required by law is fully restored.

**19f.** In estimating the balances required by this Act, the net difference of amounts due to and from other banks shall be taken as the basis for ascertaining the deposits against which required balances with Federal reserve banks shall be determined.

**19g.** National banks, or banks organized under local laws, located in Alaska or in a dependency or insular possession or any part of the United

States outside the continental United States may remain nonmember banks, and shall in that event maintain reserves and comply with all the conditions now provided by law regulating them; or said banks may, with the consent of the Reserve Board, become member banks of any one of the reserve districts, and shall in that event take stock, maintain reserves, and be subject to all other provisions of this Act.

**Sec. 20.** So much of sections two and three of the Act of June twentieth, eighteen hundred and seventy-four, entitled "An Act fixing the amount of United States notes, providing for a redistribution of the national-bank currency, and for other purposes," as provides that the fund deposited by any national banking association with the Treasurer of the United States for the redemption of its notes shall be counted as a part of its lawful reserve as provided in the Act aforesaid, is hereby repealed. And from and after the passage of this Act such fund of five per centum shall in no case be counted by any national banking association as a part of its lawful reserve.

## BANK EXAMINATIONS

**Sec. 21.** Section fifty-two hundred and forty, United States Revised Statutes, is amended to read as follows:

The Comptroller of the Currency, with the approval of the Secretary of the Treasury, shall appoint examiners who shall examine every member bank[1] at least twice in each calendar year and oftener if considered necessary: *Provided, however,* That the Federal Reserve Board may authorize examination by the State authorities to be accepted in the case of State banks and trust companies and may at any time direct the holding of a special examination of State banks or trust companies that are stockholders in any Federal reserve bank. The examiner making the examination of any national bank, or of any other member bank, shall have power to make a thorough examination of all the affairs of the bank, and in doing so he shall have power to administer oaths and to examine any of the officers and agents thereof under oath and shall make a full and detailed report of the condition of said bank to the Comptroller of the Currency.

**21a.** The Federal Reserve Board, upon the recommendation of the Comptroller of the Currency, shall fix the salaries of all bank examiners and make report thereof to Congress. The expense of the examinations herein provided for shall be assessed by the Comptroller of the Currency upon the banks examined in proportion to assets or resources held by the banks upon the dates of examination of the various banks.

**21b.** In addition to the examinations made and conducted by the Comptroller of the Currency, every Federal reserve bank may, with the approval of the Federal reserve agent or the Federal Reserve Board, provide for special

[1] Except banks admitted to membership in the system under authority of section 9 of this act. See section 9 of this act as amended by act approved June 21, 1917.

examination of member banks within its district. The expense of such examinations shall be borne by the bank examined. Such examinations shall be so conducted as to inform the Federal reserve bank of the condition of its member banks and of the lines of credit which are being extended by them. Every Federal reserve bank shall at all times furnish to the Federal Reserve Board such information as may be demanded concerning the condition of any member bank within the district of the said Federal reserve bank.

No bank shall be subject to any visitatorial powers other than such as are authorized by law, or vested in the courts of justice or such as shall be or shall have been exercised or directed by Congress, or by either House thereof or by any committee of Congress or of either House duly authorized.

**21c.** The Federal Reserve Board shall, at least once each year, order an examination of each Federal reserve bank, and upon joint application of ten member banks the Federal Reserve Board shall order a special examination and report of the condition of any Federal reserve bank.

**Sec. 22a.** No member bank and no officer, director, or employee thereof shall hereafter make any loan or grant any gratuity to any bank examiner. Any bank officer, director, or employee violating this provision shall be deemed guilty of a misdemeanor and shall be imprisoned not exceeding one year or fined not more than $5,000, or both; and may be fined a further sum equal to the money so loaned or gratuity given.

Any examiner accepting a loan or gratuity from any bank examined by him or from an officer, director, or employee thereof shall be deemed guilty of a misdemeanor and shall be imprisoned one year or fined not more than $5,000, or both, and may be fined a further sum equal to the money so loaned or gratuity given, and shall forever thereafter be disqualified from holding office as a national bank examiner.

**22b.** No national bank examiner shall perform any other service for compensation while holding such office for any bank or officer, director, or employee thereof.

No examiner, public or private, shall disclose the names of borrowers or the collateral for loans of a member bank to other than the proper officers of such bank without first having obtained the express permission in writing from the Comptroller of the Currency, or from the board of directors of such bank, except when ordered to do so by a court of competent jurisdiction, or by direction of the Congress of the United States, or of either House thereof, or any committee of Congress, or of either House duly authorized. Any bank examiner violating the provisions of this subsection shall be imprisoned not more than one year or fined not more than $5,000, or both.

**22c.** Except as herein provided, any officer, director, employee, or attorney of a member bank who stipulates for or receives or consents or agrees to receive any fee, commission, gift, or thing of value from any person, firm, or corporation, for procuring or endeavoring to procure for such person, firm, or corporation, or for any other person, firm, or corporation, any loan from

or the purchase or discount of any paper, note, draft, check, or bill of exchange by such member bank shall be deemed guilty of a misdemeanor and shall be imprisoned not more than one year or fined not more than $5,000, or both.

**22d.** Any member bank may contract for, or purchase from, any of its directors or from any firm of which any of its directors is a member, any securities or other property, when (and not otherwise) such purchase is made in the regular course of business upon terms not less favorable to the bank than those offered to others, or when such purchase is authorized by a majority of the board of directors not interested in the sale of such securities or property, such authority to be evidenced by the affirmative vote or written assent of such directors: *Provided, however,* That when any director, or firm of which any director is a member, acting for or on behalf of others, sells securities or other property to a member bank, the Federal Reserve Board by regulation may, in any or all cases, require a full disclosure to be made, on forms to be prescribed by it, of all commissions or other considerations received, and whenever such director or firm, acting in his or its own behalf, sells securities or other property to the bank, the Federal Reserve Board by regulation may require a full disclosure of all profit realized from such sale.

Any member bank may sell securities or other property to any of its directors, or to a firm of which any of its directors is a member, in the regular course of business on terms not more favorable to such director or firm than those offered to others, or when such sale is authorized by a majority of the board of directors of a member bank to be evidenced by their affirmative vote or written assent: *Provided, however,* That nothing in this subsection contained shall be construed as authorizing member banks to purchase or sell securities or other property which such banks are not otherwise authorized by law to purchase or sell.

**22e.** No member bank shall pay to any director, officer, attorney, or employee a greater rate of interest on the deposits of such director, officer, attorney, or employee than that paid to other depositors on similar deposits with such member bank.

**22f.** If the directors or officers of any member bank shall knowingly violate or permit any of the agents, officers, or directors of any member bank to violate any of the provisions of this section or regulations of the board made under authority thereof, every director and officer participating in or assenting to such violation shall be held liable in his personal and individual capacity for all damages which the member bank, its shareholders, or any other persons shall have sustained in consequence of such violation.

## LIABILITY OF NATIONAL BANK STOCKHOLDERS

**Sec. 23.** The stockholders of every national banking association shall be held individually responsible for all contracts, debts, and engagements of such

association, each to the amount of his stock therein, at the par value thereof in addition to the amount invested in such stock. The stockholders in any national banking association who shall have transferred their shares or registered the transfer thereof within sixty days next before the date of the failure of such association to meet its obligations, or with knowledge of such impending failure, shall be liable to the same extent as if they had made no such transfer, to the extent that the subsequent transferee fails to meet such liability; but this provision shall not be construed to affect in any way any recourse which such shareholders might otherwise have against those in whose names such shares are registered at the time of such failure.

## LOANS ON FARM LANDS

**Sec. 24.** Any national banking association not situated in a central reserve city may make loans secured by improved and unencumbered farm land situated within its Federal reserve district or within a radius of one hundred miles of the place in which such bank is located, irrespective of district lines, and may also make loans secured by improved and unencumbered real estate located within one hundred miles of the place in which such bank is located, irrespective of district lines; but no loan made upon the security of such farm land shall be made for a longer time than five years, and no loan made upon the security of such real estate as distinguished from farm land shall be made for a longer time than one year nor shall the amount of any such loan, whether upon such farm land or upon such real estate, exceed fifty per centum of the actual value of the property offered as security. Any such bank may make such loans, whether secured by such farm land or such real estate, in an aggregate sum equal to twenty-five per centum of its capital and surplus or to one-third of its time deposits and such banks may continue hereafter as heretofore to receive time deposits and to pay interest on the same.

The Federal Reserve Board shall have power from time to time to add to the list of cities in which national banks shall not be permitted to make loans secured upon real estate in the manner described in this section.

## FOREIGN BRANCHES

**Sec. 25.** Any national banking association possessing a capital and surplus of $1,000,000 or more may file application with the Federal Reserve Board for permission to exercise, upon such conditions and under such regulations as may be prescribed by the said board, either or both of the following powers:

First. To establish branches in foreign countries or dependencies or insular possessions of the United States for the furtherance of the foreign commerce of the United States, and to act if required to do so as fiscal agents of the United States.

Second. To invest an amount not exceeding in the aggregate ten per centum of its paid-in capital stock and surplus in the stock of one or more banks or corporations chartered or incorporated under the laws of the United States

or of any State thereof, and principally engaged in international or foreign banking, or banking in a dependency or insular possession of the United States either directly or through the agency, ownership, or control of local institutions in foreign countries, or in such dependencies or insular possessions. Until January 1, 1921, any national banking association, without regard to the amount of its capital and surplus, may file application with the Federal Reserve Board for permission, upon such conditions and under such regulations as may be prescribed by said board, to invest an amount not exceeding in the aggregate 5 per centum of its paid-in capital and surplus in the stock of one or more corporations chartered or incorporated under the laws of the United States or of any State thereof and, regardless of its location, principally engaged in such phases of international or foreign financial operations as may be necessary to facilitate the export of goods, wares, or merchandise from the United States or any of its dependencies or insular possessions to any foreign country: *Provided, however,* That in no event shall the total investments authorized by this section by any one national bank exceed 10 per centum of its capital and surplus.

Such application shall specify the name and capital of the banking association filing it, the powers applied for, and the place or places where the banking or financial operations proposed are to be carried on. The Federal Reserve Board shall have power to approve or to reject such application in whole or in part if for any reason the granting of such application is deemed inexpedient, and shall also have power from time to time to increase or decrease the number of places where such banking operations may be carried on.

Every national banking association operating foreign branches shall be required to furnish information concerning the condition of such branches to the Comptroller of the Currency upon demand, and every member bank investing in the capital stock of banks or corporations described above shall be required to furnish information concerning the condition of such banks or corporations to the Federal Reserve Board upon demand, and the Federal Reserve Board may order special examinations of the said branches, banks, or corporations at such time or times as it may deem best.

Before any national bank shall be permitted to purchase stock in any such corporation the said corporation shall enter into an agreement or undertaking with the Federal Reserve Board to restrict its operations or conduct its business in such manner or under such limitations and restrictions as the said board may prescribe for the place or places wherein such business is to be conducted. If at any time the Federal Reserve Board shall ascertain that the regulations prescribed by it are not being complied with, said board is hereby authorized and empowered to institute an investigation of the matter and to send for persons and papers, subpœna witnesses, and administer oaths in order to satisfy itself as to the actual nature of the transactions referred to. Should such investigation result in establishing the failure of the corporation in question, or of the national bank or banks which may be stockholders therein, to comply with the regulations laid down by the said Federal Board,

such national banks may be required to dispose of stock holdings in the said corporation upon reasonable notice.

Every such national banking association shall conduct the accounts of each foreign branch idependently of the accounts of other foreign branches established by it and of its home office, and shall at the end of each fiscal period transfer to its general ledger the profit or loss accrued at each branch as a separate item.

Any director or other officer, agent, or employee of any member bank may, with the approval of the Federal Reserve Board, be a director or other officer, agent, or employee of any such bank or corporation above mentioned in the capital stock of which such member bank shall have invested as hereinbefore provided, without being subject to the provisions of section eight of the Act approved October fifteenth, nineteen hundred and fourteen, entitled "An Act to supplement existing laws against unlawful restraints and monopolies, and for other purposes."[1]

## BANKING CORPORATIONS AUTHORIZED TO DO FOREIGN BANKING BUSINESS

**25a.** Corporations to be organized for the purpose of engaging in international or foreign banking or other international or foreign financial operations, or in banking or other financial operations in a dependency or insular possession of the United States, either directly or through the agency, ownership, or control of local institutions in foreign countries, or in such dependencies or insular possessions as provided by this section, and to act when required by the Secretary of the Treasury as fiscal agents of the United States, may be formed by any number of natural persons, not less in any case than five.

Such persons shall enter into articles of association which shall specify in general terms the objects for which the association is formed and may contain any other provisions not inconsistent with law which the association may see fit to adopt for the regulation of its business and the conduct of its affairs.

Such articles of association shall be signed by all of the persons intending to participate in the organization of the corporation and, thereafter, shall be forwarded to the Federal Reserve Board and shall be filed and preserved in its office. The persons signing the said articles of association shall, under their hands, make an organization certificate which shall specifically state:

First. The name assumed by such corporation, which shall be subject to the approval of the Federal Reserve Board.

Second. The place or places where its operations are to be carried on.

Third. The place in the United States where its home office is to be located.

Fourth. The amount of its capital stock and the number of shares into which the same shall be divided.

Fifth. The names and places of business or residence of the persons execut-

[1] The Clayton Act. For text see Appendix, p. 139.

ing the certificate and the number of shares to which each has subscribed.

Sixth. The fact that the certificate is made to enable the persons subscribing the same, and all other persons, firms, companies, and corporations, who or which may thereafter subscribe to or purchase shares of the capital stock of such corporation, to avail themselves of the advantages of this section.

The persons signing the organization certificate shall duly acknowledge the execution thereof before a judge of some court of record or notary public, who shall certify thereto under the seal of such court or notary, and thereafter the certificate shall be forwarded to the Federal Reserve Board to be filed and preserved in its office. Upon duly making and filing articles of association and an organization certificate, and after the Federal Reserve Board has approved the same and issued a permit to begin business, the association shall become and be a body corporate, and as such and in the name designated therein shall have power to adopt and use a corporate seal, which may be changed at the pleasure of its board of directors; to have succession for a period of twenty years unless sooner dissolved by the act of the shareholders owning two-thirds of the stock or by an Act of Congress or unless its franchises become forfeited by some violation of law; to make contracts; to sue and be sued, complain, and defend in any court of law or equity; to elect or appoint directors, all of whom shall be citizens of the United States; and, by its board of directors, to appoint such officers and employees as may be deemed proper, define their authority and duties, require bonds of them, and fix the penalty thereof, dismiss such officers or employees, or any thereof, at pleasure and appoint others to fill their places; to prescribe, by its board of directors, by-laws not inconsistent with law or with the regulations of the Federal Reserve Board regulating the manner in which its stock shall be transferred, its directors elected or appointed, its officers and employees appointed, its property transferred, and the privileges granted to it by law exercised and enjoyed.

Each corporation so organized shall have power, under such rules and regulations as the Federal Reserve Board may prescribe:

*(a)* To purchase, sell, discount, and negotiate, with or without its indorsement or guaranty, notes, drafts, checks, bills of exchange, acceptances, including bankers' acceptances, cable transfers, and other evidences of indebtedness; to purchase and sell, with or without its indorsement or guaranty, securities, including the obligations of the United States or of any State thereof but not including shares of stock in any corporation except as herein provided; to accept bills or drafts drawn upon it subject to such limitations and restrictions as the Federal Reserve Board may impose; to issue letters of credit; to purchase and sell coin, bullion, and exchange; to borrow and to lend money; to issue debentures, bonds, and promissory notes under such general conditions as to security and such limitations as the Federal Reserve Board may prescribe, but in no event having liabilities outstanding thereon at any one time exceeding ten times its capital stock and surplus; to receive deposits outside of the United States and to receive only such deposits within the United States as may be incidental to or for the purpose of carrying out

transactions in foreign countries or dependencies or insular possessions of the United States; and generally to exercise such powers as are incidental to the powers conferred by this Act or as may be usual, in the determination of the Federal Reserve Board, in connection with the transaction of the business of banking or other financial operations in the countries, colonies, dependencies, or possessions in which it shall transact business and not inconsistent with the powers specifically granted herein. Nothing contained in this section shall be construed to prohibit the Federal Reserve Board, under its power to prescribe rules and regulations, from limiting the aggregate amount of liabilities of any or all classes incurred by the corporation and outstanding at any one time. Whenever a corporation organized under this section receives deposits in the United States authorized by this section it shall carry reserves in such amounts as the Federal Reserve Board may prescribe, but in no event less than 10 per centum of its deposits.

(*b*) To establish and maintain for the transaction of its business branches or agencies in foreign countries, their dependencies or colonies, and in the dependencies or insular possessions of the United States, at such places as may be approved by the Federal Reserve Board and under such rules and regulations as it may prescribe, including countries or dependencies not specified in the original organization certificate.

(*c*) With the consent of the Federal Reserve Board to purchase and hold stock or other certificates of ownership in any other corporation organized under the provisions of this section, or under the laws of any foreign country or a colony or dependency thereof, or under the laws of any State, dependency, or insular possession of the United States but not engaged in the general business of buying or selling goods, wares, merchandise or commodities in the United States, and not transacting any business in the United States except such as in the judgment of the Federal Reserve Board may be incidental to its international or foreign business: *Provided, however,* That, except with the approval of the Federal Reserve Board, no corporation organized hereunder shall invest in any one corporation an amount in excess of 10 per centum of its own capital and surplus, except in a corporation engaged in the business of banking, when 15 per centum of its capital and surplus may be so invested: *Provided further,* That no corporation organized hereunder shall purchase, own, or hold stock or certificates of ownership in any other corporation organized hereunder or under the laws of any State which is in substantial competition therewith, or which holds stock or certificates of ownership in corporations which are in substantial competition with the purchasing corporation.

Nothing contained herein shall prevent corporations organized hereunder from purchasing and holding stock in any corporation where such purchase shall be necessary to prevent a loss upon a debt previously contracted in good faith; and stock so purchased or acquired in corporations organized under this section shall within six months from such purchase be sold or disposed of at public or private sale unless the time to so dispose of same is extended by the Federal Reserve Board.

No corporation organized under this section shall carry on any part of its business in the United States except such as, in the judgment of the Federal Reserve Board, shall be incidental to its international or foreign business: *And provided further,* That except such as is incidental and preliminary to its organization no such corporation shall exercise any of the powers conferred by this section until it has been duly authorized by the Federal Reserve Board to commence business as a corporation organized under the provisions of this section.

No corporation organized under this section shall engage in commerce or trade in commodities except as specifically provided in this section, nor shall it either directly or indirectly control or fix or attempt to control or fix the price of any such commodities. The charter of any corporation violating this provision shall be subject to forfeiture in the manner hereinafter provided in this section. It shall be unlawful for any director, officer, agent, or employee of any such corporation to use or to conspire to use the credit, the funds, or the power of the corporation to fix or control the price of any such commodities, and any such person violating this provision shall be liable to a fine of not less than $1,000 and not exceeding $5,000 or imprisonment not less than one year and not exceeding five years, or both, in the discretion of the court.

No corporation shall be organized under the provisions of this section with a capital stock of less than $2,000,000, one-quarter of which must be paid in before the corporation may be authorized to begin business, and the remainder of the capital stock of such corporation shall be paid in installments of at least 10 per centum on the whole amount to which the corporation shall be limited as frequently as one installment at the end of each succeeding two months from the time of the commencement of its business operations until the whole of the capital stock shall be paid in. The capital stock of any such corporation may be increased at any time, with the approval of the Federal Reserve Board, by a vote of two-thirds of its shareholders or by unanimous consent in writing of the shareholders without a meeting and without a formal vote, but any such increase of capital shall be fully paid in within ninety days after such approval; and may be reduced in like manner, provided that in no event shall it be less than $2,000,000. No corporation, except as herein provided, shall during the time it shall continue its operations withdraw or permit to be withdrawn, either in the form of dividends or otherwise, any portion of its capital. Any national banking association may invest in the stock of any corporation organized under the provisions of this section, but the aggregate amount of stock held in all corporations engaged in business of the kind described in this section and in section 25 of the Federal Reserve Act as amended shall not exceed 10 per centum of the subscribing bank's capital and surplus.

A majority of the shares of the capital stock of any such corporation shall at all times be held and owned by citizens of the United States, by corporations the controlling interest in which is owned by citizens of the United States, chartered under the laws of the United States or of a State of the United States, or by firms or companies, the controlling interest in which is

owned by citizens of the United States. The provisions of section 8 of the act approved October 15, 1914, entitled, "An act to supplement existing laws against unlawful restraints and monopolies, and for other purposes," as amended by the acts of May 15, 1916, and September 7, 1916, shall be construed to apply to the directors, other officers, agents, or employees of corporations organized under the provisions of this section: *Provided, however,* That nothing herein contained shall (1) prohibit any director or other officer, agent or employee of any member bank, who has procured the approval of the Federal Reserve Board from serving at the same time as a director or other officer, agent or employee of any corporation organized under the provisions of this section in whose capital stock such member bank shall have invested; or (2) prohibit any director or other officer, agent, or employee of any corporation organized under the provisions of this section, who has procured the approval of the Federal Reserve Board, from serving at the same time as a director or other officer, agent or employee of any other corporation in whose capital stock such first-mentioned corporation shall have invested under the provisions of this section.

No member of the Federal Reserve Board shall be an officer or director of any corporation organized under the provisions of this section, or of any corporation engaged in similar business organized under the laws of any State, nor hold stock in any such corporation, and before entering upon his duties as a member of the Federal Reserve Board he shall certify under oath to the Secretary of the Treasury that he has complied with this requirement.

Shareholders in any corporation organized under the provisions of this section shall be liable for the amount of their unpaid stock subscriptions. No such corporation shall become a member of any Federal reserve bank.

Should any corporation organized hereunder violate or fail to comply with any of the provisions of this section, all of its rights, privileges, and franchises derived herefrom may thereby be forfeited. Before any such corporation shall be declared dissolved, or its rights, privileges, and franchises forfeited, any noncompliance with, or violation of such laws shall, however, be determined and adjudged by a court of the United States of competent jurisdiction, in a suit brought for that purpose in the district or territory in which the home office of such corporation is located, which suit shall be brought by the United States at the instance of the Federal Reserve Board or the Attorney General. Upon adjudication of such noncompliance or violation, each director and officer who participated in, or assented to, the illegal act or acts, shall be liable in his personal or individual capacity for all damages which the said corporation shall have sustained in consequence thereof. No dissolution shall take away or impair any remedy against the corporation, its stockholders, or officers for any liability or penalty previously incurred.

Any such corporation may go into voluntary liquidation and be closed by a vote of its shareholders owning two-thirds of its stock.

Whenever the Federal Reserve Board shall become satisfied of the insolvency of any such corporation, it may appoint a receiver who shall take

possession of all of the property and assets of the corporation and exercise the same rights, privileges, powers, and authority with respect thereto as are now exercised by receivers of national banks appointed by the Comptroller of the Currency of the United States: *Provided, however,* That the assets of the corporation subject to the laws of other countries or jurisdictions shall be dealt with in accordance with the terms of such laws.

Every corporation organized under the provisions of this section shall hold a meeting of its stockholders annually upon a date fixed in its by-laws, such meeting to be held at its home office in the United States. Every such corporation shall keep at its home office books containing the names of all stockholders thereof, and the names and addresses of the members of its board of directors, together with copies of all reports made by it to the Federal Reserve Board. Every such corporation shall make reports to the Federal Reserve Board at such times and in such form as it may require; and shall be subject to examination once a year and at such other times as may be deemed necessary by the Federal Reserve Board by examiners appointed by the Federal Reserve Board, the cost of such examinations, including the compensation of the examiners, to be fixed by the Federal Reserve Board and to be paid by the corporation examined.

The directors of any corporation organized under the provisions of this section may, semiannually, declare a dividend of so much of the net profits of the corporation as they shall judge expedient; but each corporation shall, before the declaration of a dividend, carry one-tenth of its net profits of the preceding half year to its surplus fund until the same shall amount to 20 per centum of its capital stock.

Any corporation organized under the provisions of this section shall be subject to tax by the State within which its home office is located in the same manner and to the same extent as other corporations organized under the laws of that State which are transacting a similar character of business. The shares of stock in such corporation shall also be subject to tax as the personal property of the owners or holders thereof in the same manner and to the same extent as the shares of stock in similar State corporations.

Any corporation organized under the provisions of this section may at any time within the two years next previous to the date of the expiration of its corporate existence, by a vote of the shareholders owning two-thirds of its stock, apply to the Federal Reserve Board for its approval to extend the period of its corporate existence for a term of not more than twenty years, and upon certified approval of the Federal Reserve Board such corporation shall have its corporate existence for such extended period unless sooner dissolved by the act of the shareholders owning two-thirds of its stock, or by an Act of Congress or unless its franchise becomes forfeited by some violation of law.

Any bank or banking institution, principally engaged in foreign business, incorporated by special law of any State or of the United States or organized under the general laws of any State or of the United States and having an unimpaired capital sufficient to entitle it to become a corporation under the

provisions of this section may, by the vote of the shareholders owning not less than two-thirds of the capital stock of such bank or banking association, with the approval of the Federal Reserve Board, be converted into a Federal corporation of the kind authorized by this section with any name approved by the Federal Reserve Board: *Provided, however,* That said conversion shall not be in contravention of the State law. In such case the articles of association and organization certificate may be executed by a majority of the directors of the bank or banking institution, and the certificate shall declare that the owners of at least two-thirds of the capital stock have authorized the directors to make such certificate and to change or convert the bank or banking institution into a Federal corporation. A majority of the directors, after executing the articles of association and the organization certificate, shall have power to execute all other papers and to do whatever may be required to make its organization perfect and complete as a Federal corporation. The shares of any such corporation may continue to be for the same amount each as they were before the conversion, and the directors may continue to be directors of the corporation until others are elected or appointed in accordance with the provisions of this section. When the Federal Reserve Board has given to such corporation a certificate that the provisions of this section have been complied with, such corporation and all its stockholders, officers, and employees shall have the same powers and privileges, and shall be subject to the same duties, liabilities, and regulations, in all respects, as shall have been prescribed by this section for corporations originally organized hereunder.

Every officer, director, clerk, employee, or agent of any corporation organized under this section who embezzles, abstracts, or wilfully misapplies any of the moneys, funds, credits, securities, evidences of indebtedness or assets of any character of such corporation; or who, without authority from the directors, issues or puts forth any certificate of deposit, draws any order or bill of exchange, makes any acceptance, assigns any note, bond, debenture, draft, bill of exchange, mortgage, judgment, or decree; or who makes any false entry in any book, report, or statement of such corporation with intent, in either case, to injure or defraud such corporation or any other company, body politic or corporate, or any individual person, or to deceive any officer of such corporation, the Federal Reserve Board, or any agent or examiner appointed to examine the affairs of any such corporation; and every receiver of any such corporation and every clerk or employee of such receiver who shall embezzle, abstract, or wilfully misapply or wrongfully convert to his own use any moneys, funds, credits, or assets of any character which may come into his possession or under his control in the execution of his trust or the performance of the duties of his employment; and every such receiver or clerk or employee of such receiver who shall, with intent to injure or defraud any person, body politic or corporate, or to deceive or mislead the Federal Reserve Board, or any agent or examiner appointed to examine the affairs of such receiver, shall make any false entry in any book, report, or record of any matter connected with the duties of such receiver; and every

person who with like intent aids or abets any officer, director, clerk, employee, or agent of any corporation organized under this section, or receiver or clerk or employee of such receiver as aforesaid in any violation of this section, shall upon conviction thereof be imprisoned for not less than two years nor more than ten years and may also be fined not more than $5,000, in the discretion of the court.

Whoever being connected in any capacity with any corporation organized under this section represents in any way that the United States is liable for the payment of any bond or other obligation, or the interest thereon, issued or incurred by any corporation organized hereunder, or that the United States incurs any liability in respect of any act or omission of the corporation, shall be punished by a fine of not more than $10,000 and by imprisonment for not more than five years.

**Sec. 26.** All provisions of law inconsistent with or superseded by any of the provisions of this Act are to that extent and to that extent only hereby repealed: *Provided,* Nothing in this Act contained shall be construed to repeal the parity provision or provisions contained in an Act approved March fourteenth, nineteen hundred, entitled "An Act to define and fix the standard of value, to maintain the parity of all forms of money issued or coined by the United States, to refund the public debt, and for other purposes," and the Secretary of the Treasury may, for the purpose of maintaining such parity and to strengthen the gold reserve, borrow gold on the security of United States bonds authorized by section two of the Act last referred to or for one-year gold notes bearing interest at a rate of not to exceed three per centum per annum, or sell the same if necessary to obtain gold. When the funds of the Treasury on hand justify, he may purchase and retire such outstanding bonds and notes.

**Sec. 27.** The provisions of the Act of May thirtieth, nineteen hundred and eight, authorizing national currency associations, the issue of additional national-bank circulation, and creating a National Monetary Commission, which expires by limitation under the terms of such Act on the thirtieth day of June, nineteen hundred and fourteen, are hereby extended to June thirtieth, nineteen hundred and fifteen, and sections fifty-one hundred and fifty-three, fifty-one hundred and seventy-two,[1] fifty-one hundred and ninety-one, and fifty-two hundred and fourteen of the Revised Statutes of the United States, which were amended by the Act of May thirtieth, nineteen hundred and eight, are hereby reenacted to read as such sections read prior to May thirtieth, nineteen hundred and eight, subject to such amendments or modifications as are prescribed in this Act:

**27a.** *Provided, however,* That section nine of the Act first referred to in this section is hereby amended so as to change the tax rates fixed in said Act by making the portion applicable thereto read as follows:

National banking associations having circulating notes secured otherwise than

[1] Amended as to section 5172, Revised Statutes, by act approved March 3, 1919.

by bonds of the United States, shall pay for the first three months a tax at the rate of three per centum per annum upon the average amount of such of their notes in circulation as are based upon the deposit of such securities, and afterwards an additional tax rate of one-half of one per centum per annum for each month until a tax of six per centum per annum is reached, and thereafter such tax of six per centum per annum upon the average amount of such notes: *Provided further,* That whenever in his judgment he may deem it desirable, the Secretary of the Treasury shall have power to suspend the limitations imposed by section one and section three of the Act referred to in this section, which prescribe that such additional circulation secured otherwise than by bonds of the United States shall be issued only to National banks having circulating notes outstanding secured by the deposit of bonds of the United States to an amount not less than forty per centum of the capital stock of such banks, and to suspend also the conditions and limitations of section five of said Act except that no bank shall be permitted to issue circulating notes in excess of one hundred and twenty-five per centum of its unimpaired capital and surplus. He shall require each bank and currency association to maintain on deposit in the Treasury of the United States a sum in gold sufficient in his judgment for the redemption of such notes, but in no event less than five per centum. He may permit National banks, during the period for which such provisions are suspended, to issue additional circulation under the terms and conditions of the Act referred to as herein amended: *Provided further,* That the Secretary of the Treasury, in his discretion, is further authorized to extend the benefits of this Act to all qualified State banks and trust companies, which have joined the Federal reserve system, or which may contract to join within fifteen days after the passage of this Act.

**Sec. 28.** Section fifty-one hundred and forty-three of the Revised Statutes is hereby amended and reenacted to read as follows: Any association formed under this title may, by the vote of shareholders owning two-thirds of its capital stock, reduce its capital to any sum not below the amount required by this title to authorize the formation of associations; but no such reduction shall be allowable which will reduce the capital of the association below the amount required for its outstanding circulation, nor shall any reduction be made until the amount of the proposed reduction has been reported to the Comptroller of the Currency and such reduction has been approved by the said Comptroller of the Currency and by the Federal Reserve Board, or by the organization committee pending the organization of the Federal Reserve Board.

**Sec. 29.** If any clause, sentence, paragraph, or part of this Act shall for any reason be adjudged by any court of competent jurisdiction to be invalid, such judgment shall not affect, impair, or invalidate the remainder of this Act, but shall be confined in its operation to the clause, sentence, paragraph, or part thereof directly involved in the controversy in which such judgment shall have been rendered.

**Sec. 30.** The right to amend, alter, or repeal this Act is hereby expressly reserved.

## APPENDIX

## CLAYTON ANTI-TRUST ACT, APPROVED OCTOBER 15, 1914, AS AMENDED BY THE KERN AMENDMENT, APPROVED MAY 15, 1916.[1]

**Sec. 8.** That from and after two years from the date of the approval of this Act no person shall at the same time be a director or other officer or employee of more than one bank, banking association, or trust company organized or operating under the laws of the United States, either of which has deposits, capital, surplus, and undivided profits aggregating more than $5,000,000; and no private banker or person who is a director in any bank or trust company organized and operating under the laws of a State, having deposits, capital, surplus, and undivided profits aggregating more than $5,000,000, shall be eligible to be a director in any bank or banking association organized or operating under the laws of the United States. The eligibility of a director, officer, or employee under the foregoing provisions shall be determined by the average amount of deposits, capital, surplus, and undivided profits as shown in the official statements of such bank, banking association, or trust company filed as provided by law during the fiscal year next preceding the date set for the annual election of directors, and when a director, officer, or employee has been elected or selected in accordance with the provisions of this Act it shall be lawful for him to continue as such for one year thereafter under said election or employment.

No bank, banking association, or trust company organized or operating under the laws of the United States, in any city or incorporated town or village of more than two hundred thousand inhabitants, as shown by the last preceding decennial census of the United States, shall have as a director or any other officer or employee, any private banker or any director or other officer or employee of any other bank, banking association, or trust company located in the same place: *Provided,* That nothing in this section shall apply to mutual savings banks not having a capital stock represented by shares: *Provided further,* That a director or other officer or employee of such bank, banking association, or trust company may be a director or other officer or employee of not more than one other bank or trust company organized under the laws of the United States or any State where the entire capital stock of one is owned by stockholders in the other: *And provided further,* That nothing contained in this section shall forbid a director of class A of a Federal reserve bank, as defined in the Federal Reserve Act, from being an officer or director, or both an officer and director, in one member bank: *And provided further,* That nothing in this Act shall prohibit any officer, director, or employee of any member bank or class A director of a Federal reserve bank,

[1] Amended by sec. 25 of Federal Reserve Act, as amended Sept. 7, 1916, as to corporations principally engaged in foreign banking in which member banks hold stock.

who shall first procure the consent of the Federal Reserve Board, which board is hereby authorized, at its discretion, to grant, withhold, or revoke such consent, from being an officer, director, or employee of not more than two other banks, banking associations, or trust companies, whether organized under the laws of the United States or any State, if such other bank, banking association, or trust company is not in substantial competition with such member bank.

The consent of the Federal Reserve Board may be procured before the person applying therefor has been elected as a class A director of a Federal reserve bank or as a director of any member bank.

* * * * *

When any person elected or chosen as a director or officer or selected as an employee of any bank or other corporation subject to the provisions of this Act is eligible at the time of his election or selection to act for such bank or other corporation in such capacity his eligibility to act in such capacity shall not be affected and he shall not become or be deemed amenable to any of the provisions hereof by reason of any change in the affairs of such bank or other corporation from whatsoever cause, whether specifically excepted by any of the provisions hereof or not, until the expiration of one year from the date of his election or employment.

# INDEX

*(Editor's Note.—In the index following, the first column refers to the page in the text of this book on which the topic indicated is discussed. The second column refers to the paragraph in the Federal Reserve Act (as reprinted in this text), and the third column refers to the section of the Regulations of the Federal Reserve Board, Series of 1920, issued in October, 1920. The Regulations of the Board are not reprinted in this text, since they are of necessity changed from time to time.)*


| | Page in Text | Federal Reserve Act | Reserve Board Regulations |
|---|---|---|---|
| ACCEPTANCES (*See* "Bankers' Acceptances" and "Trade Acceptances") ... | .... | .... | .... |
| AGRICULTURAL PAPER, Discounted by Federal Reserve for member bank.... | 69-70 | 13a | A |
| ALASKA, Reserve Requirements for National Banks in..... | .... | 19g | .... |
| ALDRICH-VREELAND ACT, effect on..... | .... | 27 | .... |
| ARTICLES OF ASSOCIATION..... | 25 | .... | .... |
| Typical Articles ..... | 30 | .... | .... |
| BANKERS' ACCEPTANCES ..... | 71-72 | 13b-14 | A-B-C |
| BANK EXAMINERS: | | | |
| Appointment of ..... | .... | 21 | .... |
| Gratuities or loans to, prohibited..... | 62 | 22a | .... |
| Powers of ..... | .... | 21 | .... |
| Salaries of ..... | .... | 21a | .... |
| BANK NOTES (*See* "Federal Reserve Notes" and "Circulation")..... | .... | .... | .... |
| BILLS OF EXCHANGE (*See* "Drafts")... | .... | .... | .... |
| BILLS RECEIVABLE, subject to rediscount. | .... | 13-13a-c | .... |
| BONDS, UNITED STATES: | | | |
| Dealt in by Federal reserve banks.... | .... | 14 | .... |
| Hypothecation of by Federal reserve banks ..... | .... | 14 | .... |
| National banks not required to deposit. | 40 | 17 | .... |
| Purchase of by Federal reserve banks. | .... | 18a | .... |
| Refunding ..... | .... | 18a-c | .... |
| To secure Federal reserve bank notes.. | .... | 4b | .... |
| To secure national bank notes..... | 40 | .... | .... |

| | Page in Text | Federal Reserve Act | Reserve Board Regulations |
|---|---|---|---|
| BRANCHES OF NATIONAL BANKS | 91 | 25 | K |
| BY-LAWS OF NATIONAL BANKS | 33 | .... | .... |
| CAPITAL STOCK OF NATIONAL BANKS: | | | |
| Application to increase capital | 44 | .... | .... |
| Average yearly increase | 22 | .... | .... |
| $25,000 permitted | 16 | .... | .... |
| Deferred payments | 29 | .... | .... |
| Determination of amount | 23 | .... | .... |
| Disposition of | 25 | .... | .... |
| Increase of | 44 | 5a, 5d | I |
| Increase of by Stock Dividend | 45 | .... | .... |
| Initial payments on | 27 | .... | .... |
| Impaired | 47 | .... | .... |
| Reduction of | 46 | 5d, 6, 28 | I |
| Shares must be $100 | 25 | .... | .... |
| CAPITAL STOCK OF FEDERAL RESERVE BANKS: | | | |
| Allotment of | .... | 2c, 4a | .... |
| Cancellation and redemption of | .... | 5e, 6 | .... |
| Dividends | .... | 7 | .... |
| Increase and decrease of | .... | 5, 6, 28 | .... |
| Liabilities of holders of | .... | 2d, 6 | .... |
| Maximum amount to be held by one individual or corporation | .... | 2h | .... |
| Net earning, apportionment of | .... | 7 | .... |
| Payment for | .... | 2c, 2g, 9 | .... |
| Shares of $100 each | .... | 5 | .... |
| Subscriptions to | 27 | .... | .... |
| After organization of Federal reserve banks | .... | 5b | .... |
| By banks | .... | 2c, 4, 19g | .... |
| By public | .... | 2g, 2h | .... |
| By State banks | .... | 4, 9, 9a | .... |
| By trust companies | .... | 4, 9, 9a | .... |
| By United States | .... | 2i | .... |
| Transfer of | .... | 2h, 2k, 5a | .... |
| Voting power of, limited | .... | 2j | .... |
| CHECK CLEARANCE AND COLLECTION | 78 | 13,16j-k-l | J |
| CHARTERS: | | | |
| Early legislation | 13-14 | .... | .... |
| Effect of expiration | 50 | .... | .... |
| Extension of | 55 | .... | .... |
| Granted by Comptroller | 28 | .... | .... |

| | Page in Text | Federal Reserve Act | Reserve Board Regulations |
|---|---|---|---|
| CIRCULATION, NATIONAL BANKS (*See also* "Growth of National Banking System") | .... | .... | .... |
| Additional | .... | 27 | .... |
| Amount permissible for one bank | 40 | .... | .... |
| Bonds to secure | 40 | .... | .... |
| Denomination | 41 | .... | .... |
| Federal reserve | 40 | .... | .... |
| Percentage of at different periods | 22 | .... | .... |
| Profit on | 42 | .... | .... |
| Retirement of | .... | 18 | .... |
| Tax on | .... | 27a | .... |
| Under "Free Banking" | 13 | .... | .... |
| CLAYTON ACT | 81, 139 | .... | L |
| CLEARING HOUSE for Federal reserve and member banks (*See* "Check Clearance and Collection") | .... | .... | .... |
| COMMERCIAL PAPER (*See* "Drafts," "Acceptances," etc.) | .... | .... | .... |
| COMPTROLLER OF CURRENCY: | | | |
| Duties of | .... | 4, 10h | .... |
| Member of Federal Reserve Board | .... | 10 | .... |
| Member of Reserve Bank Organization Committee | .... | 2 | .... |
| Powers of | .... | 10h | .... |
| Salary of | .... | 10 | .... |
| (*See also* all sections regarding National Bank practise in text) | .... | .... | .... |
| CONDITION, Statement of to Comptroller by National Banks | 88 | .... | .... |
| Report of by member banks | .... | 9c | .... |
| CONSOLIDATION OF NATIONAL BANKS: | | | |
| Certificate of payment of capital | 52 | .... | .... |
| Neither bank liquidating | 51 | .... | I |
| One bank liquidating | 53 | .... | I |
| Both banks liquidating | 54 | .... | I |
| CORPORATE EXISTENCE OF NATIONAL BANKS | 55 | .... | .... |
| Certificate of succession | 56 | .... | .... |
| CORPORATE POWERS OF NATIONAL BANKS | 26 | .... | .... |
| CREDIT: | | | |
| Development in use of | 11–22 | .... | .... |
| CURRENCY ASSOCIATIONS | .... | 27 | .... |

| | Page in Text | Federal Reserve Act | Reserve Board Regulations |
|---|---|---|---|
| DEPOSITS: | | | |
| Demand | 76 | 19 | D |
| In Federal reserve banks | .... | 13, 14, 15 | .... |
| In member banks, reserves against | .... | 19, 19f | .... |
| Of Government funds | .... | 13, 15 | .... |
| Time | 76 | 19 | D |
| With non-member banks, limited | .... | 19d | .... |
| DIRECTORS OF NATIONAL BANKS: | | | |
| Election | 27 | .... | .... |
| Interlocking Directorates under Clayton Act | 81 | .... | .... |
| Liability of | .... | 2f | .... |
| Number of | 27 | .... | .... |
| Oath required | 27 | .... | .... |
| Qualifications of | 27 | .... | .... |
| DISCOUNTS (*See also* "Loans by National Banks" and "Federal Reserve Banks") | .... | 13a,13b,14 | .... |
| DIVIDENDS BY NATIONAL BANKS: | | | |
| Stock dividends | 60 | .... | .... |
| Unpaid, limit to liability of national banks not to include | .... | 13c | .... |
| When allowable | 60 | .... | .... |
| When prohibited | 60 | 19e | .... |
| DRAFT OR BILL OF EXCHANGE (*See also* "Acceptances") | .... | .... | .... |
| Definition of | 68 | .... | A |
| Discounted by Federal reserve banks for member banks | 68 | 13a-13c | .... |
| Foreign | .... | 14 | .... |
| Purchase and sale by Federal reserve banks | 71 | 14 | B |
| EDGE CORPORATION | .... | 25a | L |
| When officer of member bank may serve | 84 | .... | L |
| ELIGIBLE BANKS | .... | 2b,8,9,9d | .... |
| EXAMINATIONS OF NATIONAL BANKS | .... | 21 | .... |
| Of Foreign Branches | .... | 25 | .... |
| EXPORTS, acceptances on, eligible as discounts by Federal reserve and member banks | .... | 13b | .... |
| FARM LANDS (*See* "Loans") | .... | .... | .... |

| | Page in Text | Federal Reserve Act | Reserve Board Regulations |
|---|---|---|---|
| FEDERAL ADVISORY COUNCIL | .... | 12, 12a | .... |
| FEDERAL RESERVE ACT (Reprinted in full) | 93-139 | .... | .... |
| Elements necessary for success | 19 | .... | .... |
| Opened new era in banking | 20 | .... | .... |
| FEDERAL RESERVE AGENT | .... | 4f | .... |
| Bond required of | .... | 11i | .... |
| Deputy | .... | 4f | .... |
| Powers of, second to those of Secretary of Treasury | .... | 10f | .... |
| Salary of | .... | 4f | .... |
| Special examination of member banks to be approved by | .... | 21b | .... |
| FEDERAL RESERVE BANKS: | | | |
| Account with other Federal reserve banks | .... | 13,14,16l | .... |
| Advances to, by means of Federal reserve notes | .... | 16 | .... |
| Amount of capital stock to be subscribed to | .... | 2c | .... |
| Branches | .... | 3 | .... |
| Foreign Connections | .... | 14 | .... |
| By-laws | .... | 4b | .... |
| Cable transfers, purchase and sale of | .... | 14 | .... |
| Capital stock of | .... | 2l | I |
| Certificate of organization | .... | 4 | .... |
| Charter, term of | .... | 4b | .... |
| Clearing-house provisions | .... | 16l | .... |
| Collection charges | .... | 16k, 16l | .... |
| Commercial paper: | | | |
| Purchase and sale of | .... | 14 | .... |
| Rediscount of | .... | 13a, 13c | .... |
| Corporate body | .... | 4b | .... |
| Council, recommendations by | .... | 12a | .... |
| Depository, Government | .... | 13, 15 | .... |
| Deposits: | | | |
| Defined and classified | .... | 19 | .... |
| From member banks | .... | 13, 16j | .... |
| From or in other Federal reserve banks | .... | 13,14,16j | .... |
| From the United States | .... | 13, 15 | .... |
| Reserves against | .... | 16b | .... |
| With Federal reserve agent of Federal reserve notes, gold, etc | .... | 16f, 16g | .... |

| | Page in Text | Federal Reserve Act | Reserve Board Regulations |
|---|---|---|---|
| FEDERAL RESERVE BANKS (Continued): | | | |
| Directors | .... | 4c-4i | .... |
| Chairman of (Federal reserve agent) | .... | 4d, 4f | .... |
| Chosen, how | .... | 4d, 4e, 4f | .... |
| Compensation of | .... | 4g | .... |
| Duties of | .... | 4c | .... |
| Exension of discount, advancement and accommodations by | .... | 4c | .... |
| Number and classification of | .... | 4d | .... |
| Qualifications of | .... | 4d | .... |
| Removal of | .... | 11f | .... |
| Suspension of | .... | 11f | .... |
| Term of | .... | 4d, 4i | .... |
| Vacancies | .... | 4i | .... |
| Dissolution of | .... | 4b, 7 | .... |
| Dividends of | .... | 7 | .... |
| Doubtful assets of, to be written off | .... | 11g | .... |
| Drafts, received at par, when | .... | 16j | .... |
| Earnings, divisions of | .... | 7 | .... |
| Employees | .... | 4b | .... |
| Examination of | .... | 21c | .... |
| Exchange charges | .... | 16k | .... |
| Exempt from taxes | .... | 7a | .... |
| Expense of Federal Reserve Board to be paid by | .... | 10b | .... |
| Fiscal agent of the United States | .... | 15 | .... |
| Franchise Tax | .... | 7 | .... |
| Gold bond, 30-year 3 per cent. without circulating privilege | .... | 18c, 18d | .... |
| Gold coin or gold certificates to be received as deposits by Secretary of Treasury when rendered by Federal reserve bank or agent | .... | 16m | .... |
| Gold loans, made of, and contracted for | .... | 14 | .... |
| Gold, purchase and sale of | .... | 12a, 14 | .... |
| Gold notes, 1-year 3 per cent. without circulating privilege | .... | 18c, 18d | .... |
| Government deposits | .... | 13, 15 | .... |
| Individual liability of shareholders | .... | 2d | .... |
| Liquidation of | .... | 7, 11h | .... |
| Loans made of, and contracted for | .... | 14 | .... |
| Municipal securities dealt in | .... | 14 | .... |
| Officers of, may be removed or suspended | .... | 11f | .... |

| | Page in Text | Federal Reserve Act | Reserve Board Regulations |
|---|---|---|---|
| FEDERAL RESERVE BANKS (Continued): | | | |
| Open-market operations | .... | 14 | B |
| Organization of | .... | 2a, 4a, 4h | .... |
| Powers of | .... | 4b, 13-14 | .... |
| Purchase of United States bonds from member banks | .... | 18a | .... |
| Rediscounts | .... | 13a, b | A |
| Reorganization of | .... | 11h | .... |
| Seal, corporate | .... | 4b | .... |
| Senators and Representatives, prohibited from being directors of | .... | 4d | .... |
| State banks may become members | .... | 9-9d | .... |
| Statement of conditions to be published weekly by Board | .... | 11a | .... |
| Stockholders of, responsibility and liability of | .... | 2d, 6 | .... |
| Succession of | .... | 4b | .... |
| Surplus funds | .... | 7 | .... |
| Suspension of | .... | 11h | .... |
| FEDERAL RESERVE BOARD: | | | |
| Admission of banks other than national | .... | 9-9d | .... |
| Annual report of | .... | 10g | .... |
| Authorized to review decisions of Reserve Bank Organization Committee. | .... | 2 | .... |
| Chairman of | .... | 10c | .... |
| Clearing house: | | | |
| For reserve banks, designation by | .... | 16l | .... |
| For member banks, designation by | .... | 16l | .... |
| Creation of | .... | 10 | .... |
| Discount rates subject to approval of | .... | 14d | .... |
| Employees of, not in classified service | .... | 11l | .... |
| Expenses of, how paid | .... | 10b, 11e | .... |
| Extension of discounts, etc., by directors, subject to orders of | .... | 4c | .... |
| Foreign business to be approved by | .... | 14 | .... |
| Governor of | .... | 10a | .... |
| Interest on rediscounts fixed by | .... | 11b | .... |
| Making farm loans | .... | 24 | .... |
| Meetings of | .... | 10c | .... |
| Members of | .... | 10,10a,10d | .... |
| Open-market operations | 72 | 14 | .... |
| Powers of | .... | 11, 11m | .... |

| | Page in Text | Federal Reserve Act | Reserve Board Regulations |
|---|---|---|---|
| FEDERAL RESERVE BOARD (Continued): | | | |
| Powers secondary to those of Secretary of Treasury, when | .... | 10f | .... |
| Rediscounting of paper of Federal reserve banks by other Federal reserve banks | .... | 11b | .... |
| Report of | .... | 10g | .... |
| Safeguarding assets of Federal reserve banks by | .... | 11i | .... |
| Suspension of reserve requirements by. | .... | 11c | .... |
| Vice governor | .... | 10a | .... |
| Violations of act, by Federal reserve banks, duty of | .... | 11h | .... |
| FEDERAL RESERVE DISTRICTS | .... | 2, 4 | .... |
| Designation by number | .... | 2 | .... |
| How apportioned | .... | 2 | .... |
| Increase in number of | .... | 2 | .... |
| Readjustment of | .... | 2 | .... |
| FEDERAL RESERVE NOTES (obligations of United States) | .... | 16-16i | .... |
| FEDERAL RESERVE NOTES (circulating, obligations of Federal reserve banks) | .... | 4b | .... |
| For United States bonds purchased of member banks by Federal reserve banks | .... | 4b, 18b | .... |
| For United States bonds with circulation privilege against which no circulation is outstanding | .... | 4b, 18b | .... |
| Issued and redeemed as national-bank notes | .... | 4b, 18b | .... |
| FISCAL AGENT OF UNITED STATES: | | | |
| Federal reserve banks as | .... | 15 | .... |
| In foreign countries, dependencies | .... | 25 | .... |
| GOVERNMENT DEPOSITS | .... | 13, 15 | .... |
| GROWTH OF NATIONAL BANKING SYSTEM | 11 | .... | .... |
| HAWAII, reserve requirements for national banks in | .... | 19g | .... |
| HYPOTHECATION: | | | |
| Of Federal reserve bank stock by member banks prohibited | .... | 5a | .... |
| Of National Bank stock | .... | .... | .... |
| Of United States bonds by Federal reserve banks | .... | .... | .... |
| Of United States notes | .... | .... | .... |

| | Page in Text | Federal Reserve Act | Reserve Board Regulations |
|---|---|---|---|
| IMPORTS, acceptances on | .... | 13b | .... |
| INSURANCE AGENTS, National banks as | 86 | 13c | .... |
| INTEREST PAYABLE BY NATIONAL BANKS: | | | |
| Legal rate | 66 | .... | .... |
| On deposits | 66 | .... | .... |
| To officers or directors | 67 | 22e | .... |
| IRRIGATION BONDS, etc., dealt in by Federal reserve banks | .... | 14b | .... |
| LIQUIDATION OF NATIONAL BANKS | 49 | 5e | I |
| LOANS BY OR TO A NATIONAL BANK: | | | |
| By Federal reserve banks | 64 | 4c | .... |
| Limitation of indebtedness | 64 | .... | .... |
| Limitation to one person | 62 | .... | .... |
| On real estate and farm lands | 61 | 24 | G |
| On capital stock | 63 | .... | .... |
| Prohibited when reserves are below requirements | 64 | 19e | .... |
| To bank examiners | 62 | 22a | .... |
| United States notes as collateral for | 64 | .... | .... |
| LOCATION OF NATIONAL BANKS | 57 | .... | .... |
| MEMBER BANKS (*See also* "State Banks," "Trust Companies," etc.) | .... | .... | .... |
| Agents for nonmember banks | .... | 19d | .... |
| Alaska | .... | 2, 19g | .... |
| Application for membership | .... | 5c | .... |
| Balances in Federal reserve banks | .... | 19f | .... |
| Deposits in Federal reserve bank | .... | 13 | .... |
| Deposits, reserves against | .... | 19-19b | .... |
| Deposits with nonmember banks | .... | 19d | .... |
| Dividends | .... | 19e | .... |
| Examination of | .... | 21, 21b | .... |
| Individual liability of | .... | 2d | .... |
| Insolvency of | .... | 6 | .... |
| Outside continental United States | .... | 19g | .... |
| Report of earnings and dividends | .... | 9c | .... |
| Requirements of state banks for membership | .... | 9f | .... |
| Stock in Federal reserve banks | 28 | 2c, 4 | .... |
| Transfer of stock in Federal reserve banks | .... | 2k, 5a | .... |

| | Page in Text | Federal Reserve Act | Reserve Board Regulations |
|---|---|---|---|
| NAME OF NATIONAL BANK, Change of.. | 57 | .... | .... |
| NATIONAL BANK ACT, purpose of..... | 13 | .... | .... |
| "NATIONAL BANKS OF UNITED STATES" (Publication) ..... | 1 | .... | .... |
| NATIONAL BANKING ASSOCIATION, defined ..... | .... | 1 | .... |
| NATIONAL CITY BANK OF NEW YORK: | | | |
| Care of securities..... | 6 | .... | .... |
| Collections ..... | 5 | .... | .... |
| Credit files ..... | 7 | .... | .... |
| Domestic divisions ..... | 3 | .... | .... |
| Educational facilities ..... | 8 | .... | .... |
| Foreign divisions ..... | 8 | .... | .... |
| Interest on balances..... | 5 | .... | .... |
| Library ..... | 8 | .... | .... |
| Publications ..... | 7 | .... | .... |
| Purchase of commercial paper for banks ..... | 6 | .... | .... |
| Service to Correspondent Banks..... | 3 | .... | .... |
| Statistical information ..... | 8 | .... | .... |
| Telegraphic facilities ..... | 7 | .... | .... |
| Trust Department ..... | 5 | .... | .... |
| Washington Bureau ..... | 4 | .... | .... |
| NATIONAL CURRENCY ASSOCIATIONS.... | .... | 27 | .... |
| NATIONAL MONETARY COMMISSION, Report of ..... | 17 | .... | .... |
| NEW YORK CORRESPONDENT..... | 3 | .... | .... |
| NONMEMBER BANKS ..... | .... | 19d, 19g | .... |
| NOTES: | | | |
| Definition of ..... | 69 | .... | A |
| Discounted by Federal reserve banks for member banks..... | 69 | 11m,13a-b | .... |
| OFFICERS OF NATIONAL BANKS..... | 27 | .... | .... |
| ORGANIZATION OF NATIONAL BANKS... | 23-32 | .... | .... |
| Application for ..... | 23 | .... | .... |
| Certificate ..... | 25 | .... | .... |
| Typical certificate ..... | 29 | .... | .... |

| | Page in Text | Federal Reserve Act | Reserve Board Regulations |
|---|---|---|---|
| PANAMA, reserve requirements for national banks in | .... | 19g | .... |
| PHILIPPINE ISLANDS, reserve requirements for national banks in | .... | 19g | .... |
| PORTO RICO, reserve requirements for national banks in | .... | 19g | .... |
| POSTAL SAVINGS FUNDS TO BE DEPOSITED IN MEMBER BANKS | .... | 15 | .... |
| PUBLIC FEDERAL RESERVE BANK STOCK | .... | 2-c-d-g-h-j 5, 7a | .... |
| REAL ESTATE LOANS, when banks may act as agents or brokers for | 87 | 13c | .... |
| REAL PROPERTY: When national banks may hold | 88 | .... | .... |
| REDISCOUNTS BY FEDERAL RESERVE BANKS (*See* "Notes," "Drafts," "Trade Acceptances," "Bankers' Acceptances," etc.) | 68-72 | 11m,13a-b | .... |
| RESERVE BANK ORGANIZATION COMMITTEE | .... | 2, 4 | .... |
| RESERVE CITIES | 76 | 2m, 11e | .... |
| Cash reserve required for banks in | ..... | 19b,19c | .... |
| Cash reserve required for banks not in | ..... | 19a | .... |
| Designated | 76 | .... | .... |
| Number may be increased or decreased | .... | 11e | .... |
| RESERVE REQUIREMENTS for national and member banks | 76 | 19,11m,20 | .... |
| Estimate of | .... | 19f | .... |
| RESERVES, Tax on deficiency in | .... | 11c | .... |
| SAVINGS ACCOUNTS | 66 | 19 | D |
| SEAL OF NATIONAL BANK | 26, 34 | .... | .... |
| SECRETARY OF THE TREASURY: Deposit of Government funds under direction of | .... | 15 | .... |
| Earnings of Federal reserve banks used under regulations prescribed by | .... | 7 | .... |

| | Page in Text | Federal Reserve Act | Reserve Board Regulations |
|---|---|---|---|
| SECRETARY OF THE TREASURY (Contd.): | | | |
| Examiners' appointment to be approved by | .... | 21 | .... |
| Maintaining of parity | .... | 26 | .... |
| Member of Federal Reserve Board | .... | 10 | .... |
| Member of Federal Reserve Bank Organization Committee | .... | 2 | .... |
| Powers heretofore vested in, unchanged | .... | 10f | .... |
| SECURITIES, dealt in by Federal reserve banks | .... | 14 | .... |
| SHAREHOLDERS IN NATIONAL BANKS: | | | |
| Liability | 59 | 2f-23 | .... |
| Meetings | 58 | .... | .... |
| Proxy | 58 | .... | .... |
| Votes | 58 | .... | .... |
| STATE BANKS: | | | |
| Succession of by national bank | 37 | 8 | .... |
| Succession by re-organization | 37 | .... | .... |
| Succession by conversion | 38 | .... | .... |
| STATE BANKS AS MEMBERS OF FEDERAL RESERVE SYSTEM | .... | .... | H |
| Capital required | .... | 9f | .... |
| Deposits with nonmembers | .... | 19d | .... |
| Examinations of | .... | 21 | .... |
| Requirements precedent | .... | 9a | .... |
| Requirements subsequent | .... | 9b, 9c | .... |
| Withdrawal | .... | 9e | .... |
| TRADE ACCEPTANCES: | | | |
| Definition of | 69 | .... | A |
| Discounted by Federal reserve banks for member bank | 69 | 11m,13a,b | A |
| Purchase and sale by Federal reserve banks | 72 | 14 | B |
| TRUST COMPANIES, as members of Federal reserve system | .... | 1,2b,8,9e | H |
| Conversion into national bank | 39 | .... | .... |
| TRUST DEPARTMENT of national bank | 90 | 11k | F |
| VIOLATIONS OF PROVISIONS OF ACT | .... | 2f, 9d | .... |
| WARRANTS, dealt in by Federal reserve banks | .... | 14 | E |

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